

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Fenton	County Genesee
Fiscal Year End 06/30/06	Opinion Date 09/06/06	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

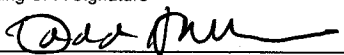
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Plante & Moran, LLP	Telephone Number 810-767-5350		
Street Address 111 E Court Street, Suite 1A	City Flint	State MI	Zip 48502
Authorizing CPA Signature 	Printed Name Tadd Harburn	License Number 1101014134	

Comprehensive Annual Financial Report

City of Fenton, Michigan

June 30, 2006

**Prepared By:
Treasurer's Department**

Comprehensive Annual Financial Report
City of Fenton, Michigan
Year Ended June 30, 2006

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June 30, 2006
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City of Fenton, Michigan
List of Elected and Appointed Officials

Mayor

Barbara Sue Osborn

City Council

Edward M. Angeluski

Cheryl A. King

Dianne North

Michael Moffitt

Carl S. Hammond

John Rauch

Appointed Officials

Leslie Bland Public Works Director

Richard Aro.....Police Chief

Robert Cairnduff Fire Chief

Cynthia A. Shane City Treasurer

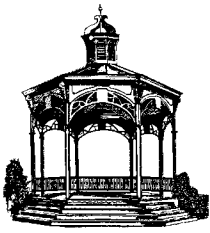
Noel Brad Hissong.....Building Inspector

Melinda Carrier.....City Clerk

Tonya Molloseau City Assessor

Michael Senyko City Manager

Christopher Wren.....Assistant City Manager



City of Fenton

301 South Leroy Street · Fenton, Michigan 48430-2196 • (810) 629-2261 • FAX (810) 629-2004

December 20, 2006

Honorable Mayor Osborn and the Fenton City Council:

In accordance with State statute and provisions of the City Charter, it is my pleasure to submit to you and the citizens of Fenton, the comprehensive annual financial report of the City of Fenton for the fiscal year ending June 30, 2006 (FY 06). Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the City. The administration believes, and has made its best efforts to insure, that the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial status have been included.

In developing and monitoring the City's accounting system, significant consideration is given to the adequacy of our systems of fiscal checks and balances. Our internal accounting controls are regularly reviewed, not just by our auditors in the preparations of our annual audit, but also by the City Treasurer and the City administration throughout the year as we examine current and proposed practices and procedures. Based upon these regular reviews, I believe the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of our financial transactions.

This report has been formulated following the guidelines recommended by the Government Finance Officers Association (GFOA) of the United States and Canada. The GFOA annually awards Certificates of Achievement to those governments whose financial reports are judged to meet the high standards of public financial reporting including generally accepted accounting principles. We can point with some pride that for eighteen consecutive years, beginning with Fiscal Year 1988, we have been the recipients of the GFOA's Certificate of Achievement.

This accompanying report consists of three major sections:

1. Introductory Section, including the City Treasurer's transmittal letter.
2. Financial Section, including the financial statements and supplemental data and our independent auditor's opinion.
3. Statistical Section, including a number of tables of unaudited data detailing the financial history of the *City of Fenton* for the past ten (10) years, information on overlapping governments and demographic and other miscellaneous data.

Public Act 2 of 1968 of the State of Michigan, as amended, requires that the financial statements of the City of Fenton be audited by a certified public accountant selected by the City Council. This requirement has been met through bidding out and retaining the services of Plante Moran as our independent auditors. We are in the third year of a five year contract with them. The opinion letter of our auditors is included in the financial section of this report.

The City of Fenton has ended the fiscal year in stable financial condition and we continue to experience strong commercial, residential and industrial growth. There is a continued high level of interest for developing in Fenton as reflected by inquiries and actual plans submitted by developers. However, overall growth has slowed somewhat. None-the-less, this continued balanced growth bodes well for Fenton's long term vitality. Our location near several major metropolitan markets, as well as our relatively new position as the commercial hub for southern Genesee, northern Livingston, and eastern Oakland counties, quality educational system, abundant natural resources, and overall quality of life continue to make Fenton a community in demand.

While we recognize the opportunities that growth provides, we also understand the challenges which accompany it as well. The City is addressing these challenges through its continued planning for the future. Significant examples of planning for the future, as well as current accomplishments, include:

- Nearing completion of a Downtown Master Plan with Design Guidelines and Implementation Strategies
- Continued focus on the improvement of local streets within the area
- Continuing to budget according to the needs and wishes of our community
- Hired a new Fire Chief and City Assessor
- Commenced replacement of the Torrey Road Bridge
- Significant progress on the strong aesthetic improvements to City Hall
- Continued implementation of a Geographic Information System (GIS)

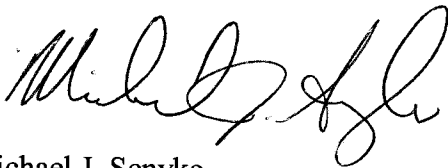
Wherever possible the City has made use of grant, matching, or low interest funds to help meet the needs of the community. Examples of such grants benefitting the City include road and water system improvements, sidewalk extensions, recreational paths, tree planting and planning studies. The City has also worked with other outside organizations to help provide the infrastructure necessary to meet the City's current and future needs.

It should again be noted that the preparation of this comprehensive annual financial report could not have been accomplished without the efforts of our City Treasurer, Cynthia Shane. Her continued efforts to upgrade the City's accounting, financial reporting and information management systems has contributed significantly to the quality of the information being reported to the City Council and the citizens of Fenton.

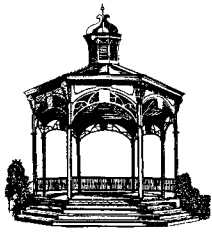
In closing, let me express my hope that you will find this document to be a useful tool in evaluating the City's financial health. Helping you and the public obtain a thorough understanding of the City's financial condition is important to us all. Should you have any questions, comments, concerns, or suggestions regarding this document or the information it contains, Cindy and I are available to respond.

My staff and I look forward to reviewing this information with you.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Michael J. Senyko". The signature is fluid and cursive, with the first name "Michael" being the most prominent part.

Michael J. Senyko
City Manager



City of Fenton

301 South Leroy Street · Fenton, Michigan 48430-2196 • (810) 629-2261 • FAX (810) 629-2004

December 1, 2006

To the Citizens of the City of Fenton:

The comprehensive annual financial report of the *City of Fenton* for the fiscal year ended June 30, 2006 is hereby submitted. Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the City. The administration believes that the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial status have been included.

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section includes a list of principal officials, the government's organizational chart, and this transmittal letter. The Basic Financial Statements section includes the entity-wide financial statements, fund financial statements and schedules. The required supplemental section includes management's discussion and analysis. Other supplementary information includes combining and individual fund financial statements. The statistical section includes various tables that reflect social and economic data, financial trends, and the fiscal capacity of the City. This data is unaudited.

In 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 (GASB No. 34), which significantly changed the contents and format of the municipal financial statements. GASB No. 34 was developed to promote comparability between various units of government and to demonstrate the operational, as well as the fiscal, accountability of each municipality. Prior to GASB No. 34, municipalities reported only on the fund basis. This demonstrated to the financial statement user that the municipality met its responsibility to the public and all legal requirements in the short term, usually a year or a budget cycle. With the adoption of GASB No. 34, a municipality must also include full accrual government-wide financial statements. The purpose of these statements is to demonstrate the operation accountability of the municipality. Operational accountability refers to the government's responsibility to assure that it is currently meeting and can continue to meet operational objectives into the foreseeable future. The accompany report is the third issued by the *City of Fenton* in compliance with the new format requirements of GASB 34.

Generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment the MD&A and should be read in conjunction with it. The City of Fenton's MD&A can be found immediately following the report of the independent auditor.

The City operates under the council-manager form of government. The City Council is comprised of the mayor and six members. The members are elected on a staggered basis for four year terms. The mayor is elected every two years. The City Manager and City Attorney are appointed by, and serve at the pleasure of the council.

REPORTING ENTITY

The City of Fenton has defined its financial reporting entity in accordance with the pronouncements of the

Governmental Accounting Standards Board (GASB).

The City provides various municipal services to its citizens. Among these are fire and police protection, garbage collection, parks maintenance and activities, street construction and maintenance, planning and zoning, and general administrative services. The City operates its own water system and sanitary sewer system.

The following organization was evaluated against the reporting entity criteria and is included in the City's annual report as a blended component unit for the reasons stated:

City of Fenton Building Authority:

- City appoints governing board.
- Surplus funds existing at termination of Authority vest to the City of Fenton

The following organizations were evaluated against the reporting entity criteria and are included in the City's annual report as discretely presented component units for the reasons stated:

Local Development Finance Authority:

- Unit is legally separate from the City.
- City appoints majority of governing board.
- Surplus funds existing at termination of Authority vest to the City.

Downtown Development Authority:

- Unit is legally separate from the City.
- City appoints majority of governing board.
- Surplus funds existing at termination of Authority vest to the City.

ECONOMIC CONDITION AND OUTLOOK

The *City of Fenton* is located in the southeast corner of Genesee County, bordering Livingston County to the south and Oakland County to the east. Livingston County is the fastest growing county in Michigan. Genesee County is the fourth largest county in the state. Fenton is accessible to the City of Flint, 15 miles to the north and the City of Detroit, 48 miles to the south. Genesee County is effectively now part of the Southeast Michigan economy and is also part of the Detroit Comprehensive Statistical Area.

The City is a stable community with many assets – quality residential neighborhoods, good schools, beautiful view of the Shiawassee River, and historic downtown and residential neighborhoods, a solid industrial base and convenient freeway access. Periodic events and festivals, such as the 4th of July Freedom Festival, Applefest, Jinglefest and Jubl'ee contribute to Fenton's "small town" sense of community.

Many choices of housing are available in Fenton, whether it is single-family homes in beautiful neighborhoods, apartments communities in convenient locations, or condominiums tucked away in lovely wooded area. For those whose careers take them outside of the city, they do not have far to travel since all major metropolitan areas such as Ann Arbor, Lansing, Flint and the Detroit Area are located within an hour's drive. Several residential developments are in the building or planning stages. Eagles at the Waters Edge development includes 92 attached condos, 138 townhouse units attached, and 65 single family detached condos. Pine Creek North is developing 268 site condos. Orchard Hills is developing phase II with 80 single family condos and Lexington Oak is developing 53 single family condos.

The City is the heart of a beautiful recreation area. There are 58 lakes within a 10-mile radius of the City, which are used for fishing, boating, swimming and other water sports. Silver Lake Park in Fenton features

a municipal beach and picnic areas. Lake Fenton, with more than 11 miles of shoreline, is the largest lake in the area, encompassing 845 acres and with a maximum depth of 92 feet. The area around the City provides facilities for downhill and cross-country skiing, snowmobiling and ice fishing.

Fenton Area Public Schools is one of the finest school districts in the state, with three public elementary schools, a fifth- and sixth-grade, a new seventh- and eighth-grade building which was built in 2000, and a high school. A small portion of the city is located in the Lake Fenton Community Schools which has built a new state-of-the-art high school. In addition, the city is the home to a private parochial school for parents who choose a religion-based education for their children.

The 2000 U.S. Census was 10,582, a population increase of 25% or 2138 persons from 1990. The estimated population for 2005 is 12,000.

A steady diversified growth in local industries has continued. New service-related businesses continue to establish in Fenton. Many new commercial businesses have opened in Silver Lake Village, a 153.9 acre Planned Unit Business development on the west side of the City. In the current year, newly built businesses in this development include Little People's Day Care, Lockwood Management's 106 unit senior house project, Silver Lake Village Profession Office building and Silver Lake Village Family Medical Center. A new Planned Unit Business development of 18.71 acres has attracted and opened a new Target Store and Rainbow Rascals Day Care. Also the Wal-Mart is planning to increase their size to a Super Wal-Mart. A multi-million dollar industrial park is located in the City. This park is filled with strong viable corporations, enhancing the employment market and tax base in the city.

MAJOR INITIATIVES

For the Year. A major concern, year after year, of the City is the maintenance and expansion of the general infrastructure (roads, bridges and sidewalks). The City has received a Surface Transportation Program Fund Grant to replace the Torrey Road Bridge. This project is under construction. The Surface Transportation Program Fund Grants require a 20% match plus engineering expenses.

A main goal of the city council is to continue establishment of a local street capital improvement program. This fiscal year resurfacing was completed on Mary Court, Lincoln, Jefferson, Sinclair and Parallel Streets.

The city hired Hubbell, Roth and Clark, Inc. as their new consulting engineers hoping to improve efficiency and contain costs on their major construction projects.

The DDA completed structural and surface improvements to the Mill Pond Park area, making this central area of the city more attractive.

The interior of City Hall was renovated. With our growth, City Hall was in need of improvements to keep up with our added customer load, service and expansion. The improvements included carpeting, painting and front office renovation.

The city has continued to maintain and improve the GIS (Geographic Information Systems). The assessing, zoning and infrastructure information are included on the GIS system. Using the GIS system to create emergency management mapping for the police and fire department is a future project.

For the Future. For the ongoing protection of the City, the City council has set a policy to maintain the combination of the General Fund and Budget Stabilization Fund balances at 20% of net General Fund operating revenues and have met these requirements. Council will strive to continue meeting this goal in the future. The City prepares a five-year financial plan annually for the General Fund.

Annually, the City updates a five-year plan for capital improvements (infrastructure). Council has a policy to annually designate 1.5 mills of the general operating millage for capital improvements.

The Local Street capital improvement program for the coming year consists of repaving East and West Streets. The City is working with Genesee County and the Michigan Department of Transportation to complete the widening of Silver Lake Road in the near future. Also the city has applied for funding grants to resurface Adelaide and North Leroy Streets.

Downtown Master Plan Focus

The DDA (Downtown Development Authority) is currently focusing on redeveloping the downtown area. The board has recognized that a critical aspect of developing the downtown involves creating a long-term vision of what downtown Fenton will become.

The DDA board retained John Dzuirman Architects to create the Downtown Plan. The plan has been completed and approved by the DDA. Further approvals by the City of Fenton Planning Commission and the Fenton City Council are anticipated in the near future.

The purpose of this effort was to develop a comprehensive overview of the downtown area and a block-by-block plan for future development. The downtown plan includes recommended building locations, parking, streetscape improvements, signage, open spaces, location and type of public art, and recommended improvements to the existing roadway network, pedestrian and parking facilities.

One of the most interesting aspects of the downtown plan and design guidelines is the inclusion of an art and cultural identity for downtown Fenton. The City of Fenton DDA has adopted a Public Art Policy that states art and culture is an important aspect of the community will help stimulate new economic development and will contribute to the continuing revitalization of the downtown area.

The downtown master plan includes an Implementation Strategies Plan that offers a framework of how to accomplish the goals, ideas and recommendations identified in the master plan. The strategies include a three phased 15 year redevelopment plan. The DDA has included several of the Phase I items in the FYE 2007 budget. These DDA budget items include: 1) extend Caroline Street from S. LeRoy to S. Walnut, 2) develop Old Fire Hall building into a new business, 3) enhance appearance of the S. LeRoy Bridge, 4) change Elizabeth Street to one-way traffic and create more parking.

Also the DDA is encouraging the construction of an addition to the Fenton Community Center. This 12,000 square foot addition to the existing center is to be funded by private contributions to the Fenton Community Foundation. The addition would include a theater, gallery and classrooms for fine art instruction. The cost of the project is anticipated to be \$3.5 million.

FINANCIAL INFORMATION

In developing and evaluating the City's accounting system, consideration has been given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

Budgeting Controls. After thorough evaluation of all proposals, the City council adopts an annual budget for the general fund, special revenue funds, and debt service funds. The budget is legally enacted on a departmental (activity) basis. Monthly budget reports are provided to department heads and it is their responsibility to see that expenditures are within the budgetary guidelines. An online inquiry system is also available to department heads in which they could review budget to actual figures on a daily basis. Quarterly budget reports are provided to council for their review.

Pension Plan. The City participates in the Michigan Municipal Employees Retirement System (MERS), which is an agent multiple-employer public employee retirement system (PERS). Each year an independent actuary engaged by the pension plan calculates the amount of annual contributions that the City of Fenton must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City of Fenton fully funds each year's annual required contribution to the pension plan as determined by the actuary. As a result of the funding policy, the City of Fenton has succeeded as of December 31, 2005, in funding 78 percent of the present value of projected benefits earned by employees. The remaining unfunded amount is being systematically funded over 30 years as a part of the annual required contribution calculated by the actuary.

Cash Management. The city complies with Public Act 20 of 1943 (as amended) of the State of Michigan in its cash management activities. Idle cash in all funds is invested in demand deposits (savings and checking), investment pool, certificates of deposit, and money markets. The average yield on maturing investments during the year was 4.75%, and the amount of interest received was \$383,240.

Risk Management. The City is insured for workers' compensation through the Michigan Municipal League's workers' compensation fund. The City has entered into an agreement with the Municipal Alliance for property and liability insurance.

OTHER INFORMATION

Independent Audit. The City Charter and State laws require an annual audit of the financial records and transactions of the City by a firm of independent licensed certified public accountants. This requirement has been complied with and the City's financial statements have received an "unqualified opinion" from, Plante & Moran, PLLC Certified Public Accountants. An unqualified opinion is the best opinion that an organization can receive on its financial statements. It indicates that the auditor's examination has disclosed no conditions that cause them to believe that the financial statements are not fairly stated in all material respects.

Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the *City of Fenton* for its comprehensive annual financial report for the fiscal year ended June 30, 2005. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The *City of Fenton* has received a Certificate of Achievement for the last eighteen consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

Acknowledgments. The continuing efforts of department heads and office staff make possible the preparation of this comprehensive annual financial report. Commitment to fiscal integrity and financial leadership by the City Council is appreciated. The accounting firm of Plante & Moran, PLLC also made substantial contributions in the preparation of this document.

Respectfully,



Cynthia A. Shane
City Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Fenton
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Thomas J. Blum".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Enen".

Executive Director

City of Fenton, Michigan Organizational Chart

Citizens of the City of Fenton

Mayor and
City Council

City Attorney

Planning Commission

Local Development Finance Authority

Building Authority

Museum Board

Zoning Board of Appeals

Downtown Development Authority

Library Board

Compensation Commission

Cemetery Board

Board of Review

Beautification Commission

Park And Recreation Board

City Manager

Police
Chief

Fire
Chief

City
Clerk

Zoning
Administrator

Treasurer

Assessor

Public Works
Director

Support Staff

Financial Section



Plante & Moran, PLLC

Suite 1A

111 E. Court St.

Flint, MI 48502

Tel: 810.767.5350

Fax: 810.767.8150

plantemoran.com

Independent Auditors' Report

Honorable Mayor and Members
of the City Council
City of Fenton
Fenton, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fenton, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fenton, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fenton, Michigan's basic financial statements. The management's discussion and analysis, and the budgetary comparison schedules as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. The introductory section, other supplemental information, and statistical section as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The budgetary comparison schedules, combining balance sheets and combining statements of revenue, expenditures and changes in fund balance, and other supplementary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the management's discussion and analysis, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Plante & Moran, PLLC

September 6, 2006

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Management's Discussion and Analysis

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of narratives and financial statements. This narrative should be considered in conjunction with the additional information presented in the letter of transmittal found on pages C-1 through C-8 and is intended to serve as an introduction to the City of Fenton's basic financial statements. The basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements are designed to provide readers with a board overview of the City of Fenton's finances, in a manner similar to a private sector business. The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, the increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Fenton is improving or deteriorating. The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. As a result, revenues and expenses are reported in this statement for some items that only result in cash flows in future fiscal periods.

Both of the government-wide statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover costs from user fees and charges for services (business-type activities). The governmental activities include general government, public works, parks and recreation, community service, and cemetery. The business-type activities include the water and sewer operation of the City. The government-wide financial statements include not only the City of Fenton (known as the primary government), but also the legally separate Downtown Development Authority and Local Development Authority for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the City.

Fund Financial Statements (which report the City's operation in more detail than the government-wide financial statements) follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities and to demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower, it is useful to compare this information with similar information presented for governmental activities in the government-wide financial statements. This comparison may allow the readers to better understand the long-term impact of the City's short-term financing decisions. Both the balance sheet and the statement of revenues, expenditures, and changes in fund balances for the governmental funds provide a reconciliation to facilitate this comparison between governmental funds and government activities.

The City of Fenton maintains 20 individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, Major and Local Streets Funds, all of which are considered to be major funds. Data for the other 17 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Fenton adopts an annual appropriated budget for all of its governmental funds. Budgetary comparison statements have been provided for all the governmental funds to demonstrate budgetary compliance.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City maintains two different types of proprietary funds. Enterprise Funds are used to report the same functions presented in the business-type activities in the government-wide financial statements. The City of Fenton uses Enterprise Funds to account for its water and sewer operations. These funds are considered major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate cost internally among various functions. The City of Fenton uses an Internal Service Fund to account for its equipment usage and also to accumulate resources for employee sick pay. Because this program predominantly benefit governmental rather than business-type functions, it has been consolidated within the governmental activities in the government-wide financial statements.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplemental Information concerning the City's budgetary comparison statements for the General and major Special Revenue funds as well as budget footnotes. This required supplemental information is in addition to the basic financial statements and accompanying notes.

Other Financial and Supplement Information, such as the combining statements and certain budget comparison statements referred to earlier, as well as various financial schedules and the statistical information, are presented immediately following the required supplemental information.

Table I summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Table 1 Major Features of the City of Fenton, Michigan's
Government-wide and Fund Financial Statements
Fund Statements**

<u>Type of Statements</u>	<u>Government-wide</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary, such as police, fire, and major/local streets	Activities the City operates similar to private business: the water and sewer system	Instances in which the City is the trustee or agent for someone else's resources.
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term, the City's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

The City of Fenton as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in millions of dollars):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Current and other:						
Assets	\$ 5.1	\$ 4.1	\$ 4.9	\$ 4.4	\$10.0	\$8.5
Capital assets	9.6	11.9	39.1	38.7	48.7	50.6
Total assets	14.7	16.0	44.0	43.1	58.7	59.1
Long-term liabilities	1.2	1.1	20.4	19.3	21.6	20.4
Other liabilities	.9	.9	.5	.5	1.4	1.4
Total liabilities	2.1	2.0	20.9	19.8	23.0	21.8
Net assets:						
Invested in capital						
assets – net of related debt	9.5	11.1	18.7	19.4	28.2	30.5
Restricted	0.5	0.2	0.9	0.9	1.4	1.1
Unrestricted	2.6	2.7	3.5	3.0	6.1	5.7
Total net assets	\$12.6	\$14.0	\$23.1	\$23.3	\$35.7	\$37.3

The City's combined net assets increased 4 percent from a year ago, increasing from 35.7 million to 37.3 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$1.4 million in net assets, or 11 percent, during the fiscal year 2006. This increase is attributable to the purchase of capital assets. The business-type activities experienced a \$.2 million increase in net assets. This was primarily due to the reduction of long-term debt. Unrestricted net assets for the governmental activities, which is the portion of net assets that is available to finance day-to-day operations and future growth, was \$2.7 million at June 30, 2006.

The following table shows the changes of the net assets during the current year and as compared to the prior year (in millions of dollars):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Revenue						
Program revenue:						
Charges for services	\$ 1.1	\$ 1.2	\$ 3.4	\$ 3.8	\$ 4.5	\$ 5.0
Operating grants and contributions	0.9	0.9	0.0	0.0	0.0	0.9
Capital grants and contributions	0.3	1.3	0.4	0.6	0.7	1.9
General revenue:						
Property taxes	3.9	4.2	0.0	0.0	3.9	4.2
State-shared revenue	0.9	0.9	0.0	0.0	0.9	0.9
Unrestricted:						
Investment earnings	0.1	0.2	0.1	0.1	0.2	0.3
Total revenue	7.2	8.7	3.9	4.5	10.2	13.2
Program Expenses						
Legislative	0.2	0.2	0.0	0.0	0.2	0.2
General government	1.3	1.2	0.0	0.0	1.3	1.2
Public safety	3.0	3.1	0.0	0.0	3.0	3.1
Public works	1.8	2.3	0.0	0.0	1.8	2.3
Parks and recreation	0.2	0.2	0.0	0.0	0.2	0.2
Community service	0.1	0.1	0.0	0.0	0.1	0.1
Cemetery	0.0	0.1	0.0	0.0	0.0	0.1
Interest on long-term debt	0.0	0.1	0.0	0.0	0.0	0.1
Water	0.0	0.0	1.8	2.0	1.8	2.0
Sewer	0.0	0.0	2.4	2.3	2.4	2.3
Total program expenses	6.6	7.3	4.2	4.3	10.8	11.6
Change in net assets	<u>\$ 0.6</u>	<u>\$ 1.4</u>	<u>\$(0.3)</u>	<u>\$ 0.2</u>	<u>\$(0.6)</u>	<u>\$ 1.6</u>

Governmental Activities

The City's total governmental revenues increased by approximately \$1.5 million due to an increase in tax revenues. Part of this increase was due to the annual increase in taxable values due to inflation. The other portion of the increase was the new revenue sharing agreement between the City and the Local Development Finance Authority. The LDFA shared \$200,000 of tax revenue with the City's general fund. The DDA also shared \$300,000 with the City's General Fund in 2006 and 2005.

Expenses increased by approximately \$.7 million, or 11 percent, from last fiscal year. The increase resulted from an increase in public safety and public works due to the City's labor agreements and increases in the employee health insurance costs, as well as the continued growth of the City of Fenton and related demand for various services by the community.

Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Funds. The City provides water from wells located in the City. A new water treatment plant processes the water for all residents. The water rates were increased in the last quarter of fiscal 2005 to support the additional expenses to operate the new water plant. Additional water rate increases for fiscal 2007 are budgeted to support the system.

The City is a participant in a county-wide sanitary sewer construction program under Act 342 Michigan Compiled Laws. The City contracts with Genesee County Water and Waste Services for the operation of the plant. The City has pledged the full faith and credit of the City for the payment of the City's share of principal and interest payments. The assets and liabilities relating to those contracts have been recorded in the Sewer Fund. The City of Fenton, Fenton Township and City of Linden share a plant located in Fenton Township. The City's proportionate share of the operating costs of the plant is covered by our sewer rates. Sewer rates remained the same in fiscal year 2003 through 2006. The sewer rates were reviewed in fiscal year 2006 for possible increases. An increase is budgeted for fiscal year 2007. During fiscal 2006, \$133,337 in operating loss was incurred in the Sewer Fund and a \$323,240 operating income was realized in the Water Fund.

The City's Funds

Our analysis of the City's major funds begins on page 10, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51 major and local road revenue sharing.

The City's major funds for 2006 include the General Fund and the Fire Equipment Fund.

The General Fund pays for most of the City's governmental services. The most significant of these are police and fire services, which incurred expenditures of approximately 3 million in 2006. The general operating millage levied by the City supports these two services. Fund Balance in the General Fund decreased by \$186,360 primarily due to the projects carried over from the previous year.

Fund Balance of the Fire Equipment Fund decreased by \$763,918 due to the purchase of equipment.

General Fund Budgetary Highlights

Over the course of the year, City administration and City Council monitor and amend the budget to take into account unanticipated events that occur during the year. At year end, actual General Fund revenues were under budget. Expenditures were \$174,280 under budget, mainly due to the efforts of administrators to keep expenditures under control.

Capital Assets and Debt Administration

At the end of fiscal 2006, the City had 50.6 million invested in a wide range of capital assets, including land, buildings, police and fire equipment, computer equipment, infrastructure assets and water and sewer lines. The value of the infrastructure assets (including construction in progress), net of depreciation, contained in this report is \$3.4 million and \$2.0 million for fiscal 2006 and 2005, respectively.

The City's general obligation bonds maintained ratings of AAA from Moody's and AAA from Standard and Poors. The city did not issue any long-term debt during the fiscal year. The ratio of net general bonded debt to assessed valuation and the amount of net bonded debt per capita are as follows:

	<u>2005</u>	<u>2006</u>
Net direct bonded debt	18,372	16,401
Ratio of debt to assessed valuation	3.71	2.92
Debt per capita	1,736	1,550

Additional information on the City of Fenton's capital assets and long term debt can be found in note 3C on pages 32-33 and note 3F on pages 35-38, respectively, of this report.

Economic Factors and Next Year's Budgets and Rates

The City levied an operating millage of 11 mills from 1989 to 2001. The city charter's operating millage is 13 mills. During these years the Headlee Amendment authorized millage was higher than 11 mills but the City Council chose not to levy the full authorized millage. In the past four years Headlee Amendment has rolled the City's operating millage below 11 mills. For 2005 the City has levied 10.87 mills and for 2006 the City has levied 10.71. In March 1994, Proposal A was enacted, which limits the growth on existing property to the rate of inflation. The inflation rate allowed for fiscal 2006 under Proposal A was only 3.3 percent. Property taxes make up 73 percent of our General Fund budget revenue and Proposal A and the Headlee Amendment limit the growth of this revenue. Fortunately the city has been experiencing new growth and development. Most of this tax revenue growth is captured by the DDA but the DDA has completed many projects which benefit the City as a whole plus shared a portion of their revenue with the General Fund this fiscal year. State-shared revenue payments decreased by \$7,469 this past year and are likely to decrease again due to the State's structural deficit problems.

The General Fund budget for 2007 is structured so that revenues exceed expenditures by \$19,523. The City makes an effort to operate with relative low personnel costs and an efficient labor force Medical insurance costs continue to increase at about 15% a year. Each year the city completes a major road infrastructure project, for 2007 this is Torrey Road Bridge. The City prepares a Five Year Financial Plan for the General Fund, foreseeing the possible financial condition for more than just one year.

The City began operation of the new water plant in July 2004. The lime-soda ash water softening plant will improve the quality of water for Fenton residents. Hopefully residents will not have to operate individual water softeners in their homes. Rates were increased to support the operation of the new plant during the 2005 fiscal year. Sewer and water rates are anticipated to increase during the 2007 fiscal year.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the resources it receives. If you have any questions about this report or need additional information, we invite you to contact the administration offices at City Hall.

Basic Financial Statements

Government-Wide Financial Statements

City of Fenton
Statement of Net Assets
June 30, 2006

	Primary Government¹		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,283,307	\$ 408,181	\$ 1,691,488
Investments	1,864,734	1,712,533	3,577,267
Receivables (net of allowances for uncollectibles)	759,554	1,298,605	2,058,159
Due from primary government	-	-	-
Internal balances	22,557	(22,557)	-
Inventory	43,181	33,935	77,116
Prepaid items	60,464	-	60,464
Restricted assets:			
Cash and cash equivalents:			
Held by County	-	410	410
Bond redemption	-	919,398	919,398
Capital assets not being depreciated	3,063,718	287,387	3,351,105
Capital assets (net of accumulated depreciation)	8,874,900	38,416,053	47,290,953
Total assets	15,972,415	43,053,945	59,026,360
Liabilities			
Accounts payable	358,954	330,703	689,657
Accrued liabilities	97,882	153,010	250,892
Accrued interest payable	-	2,736	2,736
Deposits payable	58,685	780	59,465
Due to component units	5,249	-	5,249
Due to other governmental units	323,350	-	323,350
Unearned revenue	5,000	-	5,000
Noncurrent liabilities			
Current portion of debt	163,509	1,182,359	1,345,868
Long term portion of debt	929,686	18,133,925	19,063,611
Total liabilities	1,942,315	19,803,513	21,745,828
Net Assets			
Invested in capital assets, net of related debt	11,081,127	19,387,156	30,468,283
Restricted for:			
Highways and streets	46,788	-	46,788
Capital projects	114,937	-	114,937
Bond redemption	-	919,808	919,808
Unrestricted	2,764,533	2,943,468	5,708,001
Total net assets	\$ 14,007,385	\$ 23,250,432	\$ 37,257,817

See notes to financial statements.

Component Units			
		Downtown Development Authority	Local Development Finance Authority
\$	1,914,686	\$	566,161
	-		-
			-
	19,402		4,128
	9		5,240
	-		-
	-		-
	-		-
			-
	-		-
	-		-
	295,000		-
	-		-
	2,229,097		575,529
	53,047		1,839
	854		285
	-		-
	-		-
	-		-
	-		-
	-		-
	305,000		-
	5,185,000		-
	5,543,901		2,124
	295,000		-
	-		-
	-		-
	-		-
	(3,609,804)		573,405
\$	(3,314,804)	\$	573,405

**City of Fenton
Statement of Activities
June 30, 2006**

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
Legislative and executive	\$ 197,051	\$ -	\$ -	\$ -
General government	1,223,414	89,408	7,317	-
Public safety	3,128,752	601,299	102,089	-
Public works	2,345,278	441,473	746,938	1,303,418
Parks and recreation	170,906	24,859	2,500	-
Community service	139,098	-	34,600	-
Cemetery	72,109	31,887	-	-
Interest on long term debt	34,296	-	-	-
Total governmental activities	7,310,904	1,188,926	893,444	1,303,418
Business-type activities				
Water	2,057,635	2,133,655	-	149,488
Sewer	2,286,890	1,640,425	-	469,600
Total business-type activities	4,344,525	3,774,080	-	619,088
Total primary government	\$ 11,655,429	\$ 4,963,006	\$ 893,444	\$ 1,922,506
Component units				
Downtown development authority	\$ 1,073,930	\$ -	\$ -	\$ -
Local development finance authority	232,723	-	-	-
Total component units	\$ 1,306,653	\$ - 0 -	\$ - 0 -	\$ - 0 -

General revenues
Property taxes
Unrestricted state shared revenues
Unrestricted investment earnings
Gain on sale of capital assets
Total general revenues and special items
Change in net assets
Net assets - beginning of year
Net assets - end of year

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Asset

Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Downtown Development Authority	Local Development Finance Authority
\$ (197,051)	\$ -	\$ (197,051)	\$ -	\$ -
(1,126,689)	-	(1,126,689)	-	-
(2,425,364)	-	(2,425,364)	-	-
146,551	-	146,551	-	-
(143,547)	-	(143,547)	-	-
(104,498)	-	(104,498)	-	-
(40,222)	-	(40,222)	-	-
(34,296)	-	(34,296)	-	-
(3,925,116)	-	(3,925,116)	-	-
-	225,508	225,508	-	-
-	(176,865)	(176,865)	-	-
-	48,643	48,643	-	-
(3,925,116)	48,643	(3,876,473)	-	-
-	-	-	(1,073,930)	-
-	-	-	-	(232,723)
-	-	-	(1,073,930)	(232,723)
4,230,989	-	4,230,989	1,129,759	232,302
891,252	-	891,252	-	-
158,579	128,526	287,105	79,293	16,842
30,564	-	30,564	-	-
5,311,384	128,526	5,439,910	1,209,052	249,144
1,386,268	177,169	1,563,437	135,122	16,421
12,621,117	23,073,263	35,694,380	(3,449,926)	556,984
\$ 14,007,385	\$ 23,250,432	\$ 37,257,817	\$ (3,314,804)	\$ 573,405

Fund Financial Statements

**City of Fenton
Balance Sheet
Governmental Funds
June 30, 2006**

	General	Fire Equipment	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ (470)	\$ 20,940	\$ 732,610	\$ 753,080
Investments	1,864,558		-	1,864,558
Receivables:		-		
Taxes	215,234	-	-	215,234
Accounts	46,656	-	83,072	129,728
Special assessments	16,742	-	71,561	88,303
Accrued interest	10,600	2,406	3,571	16,577
Due from other funds	102,587	373,110	18,014	493,711
Due from other government:	286,882	-	16,000	302,882
Inventory	37,306	-	5,875	43,181
Prepaid items	60,464	-	-	60,464
Total assets	<u>\$ 2,640,559</u>	<u>\$ 396,456</u>	<u>\$ 930,703</u>	<u>\$ 3,967,718</u>
Liabilities				
Accounts payable	\$ 278,270	\$ -	\$ 66,002	\$ 344,272
Accrued liabilities	88,492	-	9,350	97,842
Deposits payable	54,614	-	4,071	58,685
Due to other funds	493,203	-	60,623	553,826
Due to other government:	323,350	-	-	323,350
Due to component uni	5,249	-	-	5,249
Deferred revenue	39,457	-	76,561	116,018
Total liabilities	<u>1,282,635</u>	<u>-</u>	<u>216,607</u>	<u>1,499,242</u>
Fund Balances				
Reserved:				
Reserved for inventory	37,306	-	5,875	43,181
Reserved for prepaids	60,464	-	-	60,464
Unreserved:				
General fund	1,260,154	-	-	1,260,154
Special revenue funds	-	-	567,913	567,913
Capital project funds	-	396,456	140,308	536,764
Total fund balances	<u>1,357,924</u>	<u>396,456</u>	<u>714,096</u>	<u>2,468,476</u>
Total liabilities and fund balances	<u>\$ 2,640,559</u>	<u>\$ 396,456</u>	<u>\$ 930,703</u>	<u>\$ 3,967,718</u>

See notes to financial statements.

City of Fenton
Reconciliation of Fund Balances as Reported in the Governmental
Balance Sheet to the Statement of Net Assets
June 30, 2006

Fund balances of governmental funds	\$ 2,468,476
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities (exclusive of internal service funds) are not financial resources and, therefore, are not reported in the funds.	11,472,543
Internal service funds are used by management to charge the costs of fleet management and compensated absences to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	770,847
Long-term liabilities, including bond and contract payables, are not due and payable in the current period and therefore are not reported in the funds.	
Installment purchase agreements	(792,784)
Special assessment revenues to be received in the future are recognized at the governmental wide level due being measurable and earned.	88,303
Net assets of governmental activities	<u>\$ 14,007,385</u>

See notes to financial statements.

City of Fenton
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
June 30, 2006

	General	Fire Equipment	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 4,230,989	\$ -	\$ -	\$ 4,230,989
Special assessments	-	-	9,630	9,630
Licenses and permits	219,417	-	-	219,417
Intergovernmental revenue				
Federal	-	-	34,600	34,600
State	891,252	-	715,917	1,607,169
Charges for services	225,268	-	704,656	929,924
Fines and forfeits	100,282	-	-	100,282
Interest	84,558	18,315	33,761	136,634
Refunds and reimbursements	120	-	-	120
Miscellaneous revenues	46,778	-	8,088	54,866
Total revenues	5,798,664	18,315	1,506,652	7,323,631
Expenditures:				
Current:				
Legislative and executive	197,051	-	-	197,051
General government	1,283,627	-	-	1,283,627
Public safety	3,004,591	-	219,241	3,223,832
Public works	316,180	-	1,742,181	2,058,361
Recreation and cultural	-	-	283,083	283,083
Community service	104,499	-	-	104,499
Cemetery	-	-	72,109	72,109
Capital outlay	-	836,131	-	836,131
Debt service:				
Principal retirement	50,760	95,018	-	145,778
Interest and fiscal charges	7,973	21,084	1,232	30,289
Total expenditures	4,964,681	952,233	2,317,846	8,234,760
Revenues over (under) expenditures	833,983	(933,918)	(811,194)	(911,129)
Other financing sources (uses)				
Transfers in	17,587	170,000	1,327,000	1,514,587
Transfers out	(1,038,400)	-	(492,587)	(1,530,987)
Total other financing sources (uses)	(1,020,813)	170,000	834,413	(16,400)
Net change in fund balances:	(186,830)	(763,918)	23,219	(927,529)
Fund balances - beginning of year	1,544,754	1,160,374	690,877	3,396,005
Fund balances - end of year	\$ 1,357,924	\$ 396,456	\$ 714,096	\$ 2,468,476

See notes to financial statements.

City of Fenton
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds	\$ (927,529)
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlay	2,553,589
Depreciation	(412,999)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. These are the effects of these differences in the treatment of long-term debt and related items.	
Principal repayments	145,787
The net revenue of internal service funds is reported with governmental activities.	35,165
Recognition of special assessment revenue on an accrual basis	<u>(7,745)</u>
Change in net assets of governmental activities	<u><u>\$ 1,386,268</u></u>

See notes to financial statements.

**City of Fenton
Statement of Net Assets
Proprietary Funds
June 30, 2006**

	Business-type Activities-Enterprise Fund			Governmental Activities- Internal Service Funds
	Sewer	Water	Totals	
Assets				
Current assets:				
Cash and cash equivalents	\$ 408,181	\$ -	\$ 408,181	\$ 530,227
Investments	7	1,712,526	1,712,533	176
Receivables:				
Accounts	424,216	521,822	946,038	-
Accrued interest	25,206	18,912	44,118	6,830
Unbilled utility service income	116,527	191,922	308,449	-
Due from other funds	1,621,332	16,358	1,637,690	82,672
Inventory	-	33,935	33,935	-
Total current assets	2,595,469	2,495,475	5,090,944	619,905
Noncurrent assets:				
Restricted assets - cash and equivalents	-	919,808	919,808	-
Capital assets not depreciated	158,192	129,195	287,387	-
Capital assets(net of accumulated depreciation)	22,605,464	15,810,589	38,416,053	466,075
Total noncurrent assets	22,763,656	16,859,592	39,623,248	466,075
Total assets	25,359,125	19,355,067	44,714,192	1,085,980
Liabilities				
Current liabilities:				
Accounts payable	249,440	81,263	330,703	14,682
Accrued liabilities	45,791	107,219	153,010	40
Compensated absences	-	-	-	235,704
Accrued interest payable	-	2,736	2,736	-
Due to other funds	21,900	1,638,347	1,660,247	-
Capital leases payable - current	-	-	-	20,576
Bonds and notes payable - current	712,359	470,000	1,182,359	-
Total current liabilities	1,029,490	2,299,565	3,329,055	271,002
Noncurrent liabilities:				
Meter deposits	-	780	780	-
Capital leases payable	-	-	-	44,131
Bonds and notes payable	9,170,166	8,963,759	18,133,925	-
Total noncurrent liabilities	9,170,166	8,964,539	18,134,705	44,131
Total liabilities	10,199,656	11,264,104	21,463,760	315,133
Net Assets				
Invested in capital assets, net of related debt	12,881,131	6,506,025	19,387,156	401,368
Restricted for bond reserve	-	919,808	919,808	-
Unrestricted	2,278,338	665,130	2,943,468	369,479
Total net assets	\$ 15,159,469	\$ 8,090,963	\$ 23,250,432	\$ 770,847

See notes to financial statements.

City of Fenton
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2006

	Business-type Activities-Enterprise Fund			Governmental Activities-Internal Service Funds
	Sewer	Water	Totals	
Operating revenues:				
Charges for services	\$ 1,640,425	\$ 2,054,055	\$ 3,694,480	\$ 374,789
Other income	-	79,600	79,600	-
Total operating revenues	1,640,425	2,133,655	3,774,080	374,789
Operating expenses:				
Wages and benefits	169,950	619,279	789,229	42,089
Office and administrative	-	5,209	5,209	-
Benefit payments	78,711	259,346	338,057	-
Supplies	2,452	320,957	323,409	5,395
Gas and oil	-	-	-	47,855
Heat, power, and lights	14,408	151,205	165,613	41,163
Repairs and maintenance	13,122	38,028	51,150	100,824
Equipment rent	34,563	9,630	44,193	164
Building rent	29,200	29,150	58,350	-
Professional fees	17,166	23,803	40,969	-
Payment to Genesee County for sewage treatment	862,022	-	862,022	-
Depreciation	496,819	237,923	734,742	134,179
GIS/computer	32,940	32,662	65,602	-
Insurance	21,434	26,381	47,815	31,818
Miscellaneous	975	56,842	57,817	1,039
Total operating expenses	1,773,762	1,810,415	3,584,177	404,526
Operating income (loss)	(133,337)	323,240	189,903	(29,737)
Nonoperating revenues (expenses)				
Interest on investments	103,109	25,417	128,526	21,945
Interest and fiscal charges	(513,128)	(247,220)	(760,348)	(4,007)
Gain/loss on sale of capital assets	-	-	-	30,564
Total nonoperating revenues (expenses)	(410,019)	(221,803)	(631,822)	48,502
Income (loss) before contributions and transfer	(543,356)	101,437	(441,919)	18,765
Capital contributions - tap fees	469,600	149,488	619,088	-
Transfers in	-	-	-	16,400
Change in net assets	(73,756)	250,925	177,169	35,165
Nets assets - beginning of year	15,233,225	7,840,038	23,073,263	735,682
Net assets - end of year	\$ 15,159,469	\$ 8,090,963	\$ 23,250,432	\$ 770,847

See notes to financial statements.

City of Fenton
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2006

	<u>Business-type Activities-Enterprise Fund</u>			Governmental Activities- Internal Service Funds
	Sewer	Water	Totals	
Cash flows from operating activities				
Receipts from customers	\$ 1,656,461	\$ 2,164,608	\$ 3,821,069	\$ -
Receipts from quasi-external transactions	-	-	-	374,715
Payments to suppliers	(1,095,931)	(878,783)	(1,974,714)	(282,446)
Payments to employees	(165,691)	(613,612)	(779,303)	(33,875)
Net cash provided by operating activities	394,839	672,213	1,067,052	58,394
Cash flows from noncapital financing activities:				
Transfers in	-	-	-	16,400
Net cash provided by noncapital financing activities	-	-	-	16,400
Cash flows from capital and related financing activities				
Acquisition of capital assets	(388)	(313,374)	(313,762)	(277,004)
Proceeds from the sale of capital assets	-	-	-	42,938
Principal payments on bonds and notes	(676,256)	(455,000)	(1,131,256)	(23,650)
Tap-in fees	469,600	149,488	619,088	-
Interest paid	(513,128)	(247,220)	(760,348)	-
Net cash used in capital and related financing activities	(720,172)	(866,106)	(1,586,278)	(257,716)
Cash flows from investing activities				
(Purchase) sale of investments	-	191,604	191,604	-
Interest earned on operating funds	91,942	30,858	122,800	17,712
Net cash provided by investing activities	91,942	222,462	314,404	17,712
Net increase (decrease) in cash and cash equivalent	(233,391)	28,569	(204,822)	(165,210)
Cash and cash equivalents - beginning of year	641,572	891,239	1,532,811	695,437
Cash and cash equivalents - end of year (Includes \$919,808 of restricted cash and cash equivalents for Water Fund)	\$ 408,181	\$ 919,808	\$ 1,327,989	\$ 530,227

(continued)

City of Fenton
Statement of Cash Flows
Proprietary Funds (continued)
Year Ended June 30, 2006

	<u>Business-type Activities-Enterprise Fund</u>			Governmental Activities- Internal Service Funds
	Sewer	Water	Totals	
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (133,337)	\$ 323,240	\$ 189,903	\$ (29,737)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	496,819	237,923	734,742	134,179
(Increase) decrease in assets:				
Receivables	39,014	44,929	83,943	-
Due from other funds	(22,978)	(13,978)	(36,956)	(58,673)
Inventory	-	1,152	1,152	-
Increase (decrease) in liabilities				
Accounts payable	(3,785)	(13,850)	(17,635)	(3,565)
Accrued liabilities	4,259	5,668	9,927	16,190
Due to other funds	14,847	87,129	101,976	-
Total adjustments	528,176	348,973	877,149	88,131
Net cash provided by operating activities	\$ 394,839	\$ 672,213	\$ 1,067,052	\$ 58,394

See notes to financial statements.

**City of Fenton
Balance Sheet
Fiduciary Funds
Agency Funds
June 30, 2006**

Assets

Cash and cash equivalents	\$ 22,789
	<hr/>
Total assets	\$ 22,789
	<hr/> <hr/>

Liabilities

Liabilities:

Accounts payable	\$ 1,984
Due to other governments	13,585
Due to employees - union groups	7,220
	<hr/>
Total liabilities	\$ 22,789
	<hr/> <hr/>

See notes to financial statements.

Notes to Financial Statements

City of Fenton
Notes to Financial Statements
June 30, 2006

1. Summary of significant accounting policies

The accounting policies of the City of Fenton, Michigan conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Fenton, Michigan:

A. Reporting entity

The City of Fenton, Michigan was incorporated January 24, 1964, under the provisions of Act 279, P.A. 1909 as amended. The City operates a council-manager form of government and provides the following services as authorized by its charter: public safety (police, fire, and inspections), highways and streets, sanitation, parks and recreation, public improvements, planning and zoning, and general administrative services.

The accompanying financial statements present the City and its component units, legally separate entities for which the City is considered to be financially accountable. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the City.

Blended Component Unit –The City of Fenton's Building Authority is governed by a board appointed by the City of Fenton's governing body. Although it is legally separate from the City of Fenton, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the City of Fenton's public buildings. The Building Authority had no activity in 2005 or 2006.

Discretely Presented Component Units – The component unit columns in the government-wide financial statements include the financial data of the City's two discretely presented component units. These units are reported in separate columns to emphasize that they are legally separate from the City.

Downtown Development Authority – (Governmental Activity) A majority of the members of the governing board of the Downtown Development Authority are appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority. Complete financial statements of the Downtown Development Authority can be obtained at the City of Fenton, Treasurer's Office, 301 South Leroy Street, Fenton, Michigan 48430.

Local Development Finance Authority – (Governmental Activity) A majority of the members of the governing board of the Local Development Finance Authority are appointed by the City Council. The budgets and expenditures are approved by the City. The City also has the ability to significantly influence operations of the Local Development Finance Authority. Complete financial statements of the Local Development Finance Authority can be obtained at the City of Fenton, Treasurer's Office, 301 South Leroy Street, Fenton, Michigan 48430.

City of Fenton
Notes to Financial Statements
June 30, 2006

1. Summary of significant accounting policies - (continued)

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Agency funds have no measurement focus.

City of Fenton
Notes to Financial Statements
June 30, 2006

1. Summary of significant accounting policies - (continued)

C. Measurement focus, basis of accounting, and financial statement presentation - (continued)

Property taxes, income taxes, licenses, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Fire Equipment Fund accounts for revenues earmarked for the purchase of fire equipment.

The government reports the following major proprietary funds:

The Water Supply and Sewer Disposal System are managed by the City's Department of Public Works. Separate funds are maintained for the operations of the water distribution system and sewage collection, pumping and distribution to the County's treatment plant.

Additionally, the government reports the following fund types:

Internal service funds account for equipment acquisition, usage, and maintenance and also the financing of employee sick pay. These services are provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

Agency Funds account for collection and payment to the county, school districts and other City funds for property taxes collected by the City on their behalf and amounts withheld from City employee payroll related to union dues and related payments. Agency funds are reported as fiduciary funds.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

City of Fenton
Notes to Financial Statements
June 30, 2006

1. Summary of significant accounting policies - (continued)

C. Measurement focus, basis of accounting, and financial statement presentation - (continued)

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and interest income.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise funds and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Budgetary data

Budgets shown in the financial statements were prepared on the same modified accrual basis used to reflect actual results. The City employs the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the third Monday in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.

The operating budget includes proposed expenditures and the means of financing them for the General and Special Revenue Funds. Informational summaries of projected revenues and expenditures are provided for all other City funds, as well as estimated total costs and proposed methods of financing all capital construction projects.

2. Public hearings are conducted to obtain taxpayer comments.
3. On or before the third Monday in May, by resolution, the budget is legally enacted on a departmental (activity) basis for all budgetary funds for the ensuing fiscal year in accordance with Public Act 621 of the State of Michigan.
4. The City Manager, or his designee, is authorized to transfer budgeted amounts within departmental appropriation accounts. However, any revisions that alter the total expenditures of any department must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. Also, all budgets are adopted on a basis consistent with generally accepted accounting principles.

City of Fenton, Michigan
Notes to Financial Statements
June 30, 2006

1. Summary of significant accounting policies – (continued)

D. Budgetary data – (continued)

6. Budget appropriations lapse at year end.
7. The original budget was amended and supplemental appropriations approved during the year, in accordance with the City charter and applicable State laws. The budget to actual expenditures in the financial statements represents the final budgeted expenditures as amended by the City.
8. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. There were no encumbrances at year end.

E. Assets, liabilities, and net assets or equity

1. Bank deposits and investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less when acquired. Investments are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown net of an allowance for uncollectibles.

3. Inventory and prepaid items

Inventories are valued at cost for governmental funds, and the lower of cost or market in proprietary funds, using the first-in/first-out (FIFO) method. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure/expense at the time individual inventory items are consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

Certain proceeds of the City’s enterprise fund bonds are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The “bond redemption” account is used to report resources set aside to make up potential future deficiencies.

City of Fenton
Notes to Financial Statements
June 30, 2006

1. Summary of significant accounting policies - (continued)

E. Assets, liabilities, and net assets or equity – (continued)

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-40
Building and land improvements	5-20
Vehicles	3-10
Office equipment	3-5
Machinery and equipment	3-10
Roads, lights, and bridges	10-20
Sewer and water lines	40-100

6. Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

7. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

City of Fenton
Notes to Financial Statements
June 30, 2006

1. Summary of significant accounting policies – (continued)

E. Assets, liabilities, and net assets or equity – (continued)

8. Compensated absences

a. Accumulated unpaid sick pay

Substantially all City employees are paid for unused sick days upon termination of employment. Accumulated vested unpaid sick pay at June 30, 2006, is recorded in the financial statements of the City as follows:

GOVERNMENTAL FUND TYPES- As a current year expenditure. The City records an operating transfer from the General Fund to the Sick Pay Internal Service Fund for any unpaid sick pay owing to employees at year end. The entire liability is funded in the year in which it has been incurred.

PROPRIETARY FUND TYPES- Accrued as a liability and expensed as incurred.

b. Accumulated unpaid vacation pay

All employees may carry over from year to year a maximum of one-half of the unused vacation days earned in the current year. Upon involuntary termination of employment, no payment will be made to an employee for any unused accumulated vacation days. However, upon voluntary termination with notice, an employee may receive payment for any unused accumulated vacation days. At June 30, 2006, the unused vacation days are insignificant and, therefore, no liability has been recorded.

9. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

2. Detail notes on all funds

A. Deposits and investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

City of Fenton
Notes to Financial Statements
June 30, 2006

2. Detail notes on all funds – (continued)

A. Deposits and investments – (continued)

The City has designated four banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to one type of risk, which is examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the City had \$5,801,400 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the city evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Component units:

Of the City's component unit deposits \$2,024,372 are uninsured and uncollateralized.

B. Receivables

Receivables as of year end for the City's individual major funds and nonmajor and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Governmental activities:

	<u>General</u>	<u>Fire Equipment</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:				
Taxes	\$215,234	\$ -	\$ -	\$215,234
Accounts	46,656	-	83,072	129,728
Special assessments	16,742	-	71,561	88,303
Interest	10,600	2,406	10,401	23,407
Intergovernmental	286,882	-	16,000	302,882
Gross and net receivables	<u>\$576,114</u>	<u>\$ 2,406</u>	<u>\$181,034</u>	<u>\$759,554</u>

City of Fenton
Notes to Financial Statements
June 30, 2006

2. Detail notes on all funds – (continued)

B. Receivables

No allowance for uncollectible was deemed necessary for the outstanding receivables.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Special assessments not yet due	\$ 88,303	\$ -	\$ 88,303
Personal property taxes	22,715	-	22,715
Cemetery lot deposits	-	5,000	5,000
	<u>\$111,018</u>	<u>\$ 5,000</u>	<u>\$ 116,018</u>

Business Type Activities:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Receivables:			
Accounts – all types	\$713,744	\$540,743	\$1,254,487
Interest	18,912	25,206	44,118
Gross and net receivable	<u>\$732,656</u>	<u>\$565,949</u>	<u>\$1,298,605</u>

No allowance for uncollectible was deemed necessary.

C. Capital assets

Capital asset activity for the year ended June 30, 2006 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,605,104	\$ -	\$ -	\$ 1,605,104
Construction in progress - roads	774,485	775,760	(91,631)	1,458,614
Total capital assets, not being depreciated	<u>2,379,589</u>	<u>775,760</u>	<u>(91,631)</u>	<u>3,063,718</u>
Capital assets, being depreciated:				
Buildings	6,007,171	-	-	6,007,171
Building and land improvements	546,530	-	-	546,530
Machinery, vehicles, and equipment	2,709,108	1,389,351	(148,667)	3,949,792
Roads, lights and bridges	1,276,907	757,113	-	2,034,020
Total capital assets being depreciated	<u>10,539,716</u>	<u>2,146,464</u>	<u>(148,667)</u>	<u>12,537,513</u>

City of Fenton
Notes to Financial Statements
June 30, 2006

2. Detail notes on all funds – (continued)

C. Capital assets – (continued)

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Less accumulated depreciation for:				
Buildings	1,054,196	145,868	-	1,200,064
Buildings and land improvements	280,468	26,013	-	306,481
Machinery, vehicles, and equipment	1,873,138	306,168	(136,293)	2,043,013
Roads, lights and bridges	43,926	69,129	-	113,055
Total accumulated depreciation	3,251,728	547,178	(136,293)	3,662,613
Total capital assets, being depreciated, net	7,287,988	1,599,286	(12,374)	8,874,900
Governmental activities capital assets, net	<u>\$ 9,667,577</u>	<u>\$ 2,375,046</u>	<u>\$ (104,005)</u>	<u>\$ 11,938,618</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 190,930	\$ -	\$ -	\$ 190,930
Construction in progress	48,032	48,424	-	96,456
Total capital assets, not being depreciated	238,962	48,424	-	287,386
Capital assets, being depreciated:				
Building improvements	8,547,132	265,335	-	8,812,467
Sewer and water lines	36,419,877	-	-	36,419,877
Machinery and equipment	660,484	-	-	660,484
Total capital assets, being depreciated	45,627,493	265,335	-	45,892,828
Less accumulated depreciation for:				
Building improvements	-	-	-	-
Sewer and water lines	6,273,310	697,736	-	6,971,046
Machinery and equipment	468,722	37,006	-	505,728
Total accumulated depreciation	6,742,032	734,742	-	7,476,774
Total capital assets, being depreciated, net	38,885,461	(469,407)	-	38,416,054
Business-type activities capital assets, net	<u>\$39,124,423</u>	<u>\$ (420,983)</u>	<u>\$ -0-</u>	<u>\$38,703,440</u>

City of Fenton
Notes to Financial Statements
June 30, 2006

2. Detail notes on all funds – (continued)

C. Capital assets – (continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Current:

General government	\$ 93,938
Public safety	235,137
Public works	203,308
Parks and recreation	<u>14,795</u>

Total depreciation expense – governmental activities	<u>\$547,178</u>
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Business-type activities:

Water	\$237,923
Sewer	<u>496,819</u>

Total depreciation expense – business-type activities	<u>\$734,742</u>
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Component units:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
DDA activities:				
Capital assets, not being depreciated:				
Land	<u>\$295,000</u>	\$ -	\$ -	<u>\$295,000</u>
DDA activities capital assets	<u>\$295,000</u>	\$ -0-	\$ -0-	<u>\$295,000</u>

D. Defined benefit pension plan

Plan description:

The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit plan administered by the MERS Retirement Board. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

Funding policy:

The City is required to contribute at an actuarially determined rate; the current rate ranges from 8.98% of annual covered payroll for the DPW employee group to 14.26% for the Police Dispatch Group. Employees are required to contribute 0% - 1% to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

City of Fenton
Notes to Financial Statements
June 30, 2006

2. Detail notes on all funds – (continued)

D. Defined benefit pension plan – (continued)

Annual pension cost:

For the year ended June 30, 2006, the City's annual pension cost of \$317,579 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.40% per year for merit and longevity, and an asset valuation method that smoothes fair value of assets over 5 years. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation was 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/04	\$212,484	100%	-
6/30/05	276,348	100	-
6/30/06	317,579	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Funded (Unfunded) (AAL) (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/c</u>
12/31/03	\$6,341,437	\$7,922,005	(1,580,568)	80.0%	2,518,863	(62.7)%
12/31/04	6,673,317	8,414,951	(1,741,634)	80.0	2,655,110	(66.0)
12/31/05	7,072,750	9,028,424	(1,955,674)	78.3	2,903,417	(67.4)

E. Other post employment benefits

In addition to the pension benefits described in Note 3.D, the City provides post retirement health care benefits for covered employees who retire on or after age 55 with at least 10 years of service and for all other employees, in accordance with a City resolution to all employees who retire on or after age 62 with at least 10 years of service. Currently 26 retirees meet the eligibility requirements. The City pays 100% of the health insurance premiums for these retirees. Expenditures for the premiums are paid and recognized as they become due. During the year, expenditures of \$255,165 were recognized for retiree health insurance premiums.

City of Fenton
Notes to Financial Statements
June 30, 2006

2. Detail notes on all funds – (continued)

E. Other post employment benefits

Upcoming reporting change:

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010. Management is currently assessing the impact of this new accounting standard on the City’s financial statement for future reporting periods.

F. Leases

Capital leases:

The City entered into a lease agreement during the 2005 fiscal year as lessee for financing the purchase of a grader. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

Year Ending <u>June 30</u>	<u>Amount</u>
2007	23,650
2008	23,650
2009	<u>23,650</u>
Total minimum lease payments	70,950
Less amount representing interest	<u>6,243</u>
Present value	<u><u>\$ 64,707</u></u>

G. Long-term debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2006:

	<u>Beginning Balance</u>	<u>Addition</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Installment purchase agreements	\$ 938,571	\$ -	\$(145,787)	\$ 792,784	\$106,933
Capital leases	84,350	-	(19,643)	64,707	20,576
Accrued compensation	<u>219,302</u>	<u>57,552</u>	<u>(41,150)</u>	<u>235,704</u>	<u>36,000</u>
Governmental activity long-term liabilities	<u><u>\$1,242,223</u></u>	<u><u>\$ 57,522</u></u>	<u><u>\$(206,580)</u></u>	<u><u>\$1,093,195</u></u>	<u><u>\$163,509</u></u>

City of Fenton
Notes to Financial Statements
June 30, 2006

2. Detail notes on all funds – (continued)

G. Long-term debt – (continued)

	<u>Beginning Balance</u>	<u>Addition</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities:					
Bonds payable:					
General obligation bonds	\$10,558,781	\$ -	\$ (676,256)	\$ 9,882,525	\$ 712,359
Revenue bonds	9,888,759	-	(455,000)	9,433,759	470,000
Business-type activity long-term liabilities	<u>\$20,447,540</u>	<u>\$ -0-</u>	<u>\$(1,131,256)</u>	<u>\$19,316,284</u>	<u>\$1,182,359</u>
Component unit activities:					
Bonds payable:					
DDA	<u>\$ 5,790,000</u>	<u>\$ -0-</u>	<u>\$ (300,000)</u>	<u>\$ 5,490,000</u>	<u>\$ 305,000</u>

Significant details regarding the types of debt are presented as follows:

<u>Bonds and Notes Payable</u>	<u>Fund Servicing Debt</u>	<u>Final Payment Due</u>	<u>Interest Rate or Range</u>	<u>Annual Principal Payment Varies Between</u>	<u>Outstanding Balance June 30, 2006</u>
Government activities:					
Installment purchase agreements:					
Motorola Communications System	General Fund	March 1, 2010	3.52%	\$52,000-57,686	\$ 219,240
Magnum Fire Truck	Capital Projects	March 1, 2015	3.67	54,933-73,292	573,544
Accrued compensation					<u>235,704</u>
Total governmental activity long-term liabilities					<u>1,028,488</u>
Business-type activities:					
Sewer Fund:					
Contracts with Genesee County:					
Sewage Disposal System #3 Bonds	Sewer Fund	April 1, 2016	5.2-7.0	545,342-713,949	6,778,569
Sewage Disposal System #3 Series 1998 Bonds	Sewer Fund	March 1, 2019	4.859-5.000	97,641-470,219	3,103,956

City of Fenton
Notes to Financial Statements
June 30, 2006

2. Detail notes on all funds – (continued)

G. Long-term debt – (continued)

<u>Bonds and Notes Payable</u>	<u>Fund Servicing Debt</u>	<u>Final Payment Due</u>	<u>Interest Rate or Range</u>	<u>Annual Principal Payment Varies Between</u>	<u>Outstanding Balance June 30, 2006</u>
Business-type activities: (continued)					
Water Fund:					
Michigan Municipal Bond Authority-Michigan Drinking Water Revolving Fund Bonds	Water Fund	April 1, 2019	2.5	65,000-98,579	988,759
Michigan Municipal Bond Authority-Michigan Drinking Water Revolving Fund Bonds	Water Fund	April 1, 2023	2.5	405,000-600,000	<u>8,445,000</u>
Total business-type activities					<u>19,316,284</u>
Total primary government long-term liabilities					<u>\$20,344,772</u>
Component unit activities:					
General obligation debt:					
1994 Downtown Development Bonds	Capital Projects	May 1, 2009	5.150-6.850%	\$70,000-75,000	\$ 215,000
2002 General Obligation Limited Tax Development Bonds	Capital Projects	April 1, 2021	4.2-4.5	235,000-465,000	<u>5,275,000</u>
Total component unit long-term liabilities					<u>\$ 5,490,000</u>

General obligation debt:

Debt service requirements:

<u>Year Ended</u>	<u>Governmental Activities</u>		
	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
6-30-07	135,699	106,933	28,766
6-30-08	135,699	110,779	24,920
6-30-09	135,698	114,763	20,935
6-30-10	135,698	118,892	16,806
6-30-11	75,882	63,452	12,530
6-30-12 to 6-30-15	<u>303,928</u>	<u>277,965</u>	<u>25,963</u>
	<u>\$ 922,604</u>	<u>\$ 792,784</u>	<u>\$129,920</u>

City of Fenton, Michigan
Notes to Financial Statements
Year Ended June 30, 2006

2. Detail notes on all funds – (continued)

G. Long-term debt – (continued)

General obligation debt: - (continued)

Debt service requirements:

<u>Year Ended</u>	<u>Business-Type Activities</u>		
	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
6-30-07	\$ 1,849,945	\$ 1,182,359	\$ 667,586
6-30-08	1,848,096	1,215,190	632,906
6-30-09	1,848,678	1,251,535	597,143
6-30-10	1,852,532	1,295,515	557,017
6-30-11	1,849,608	1,334,104	515,502
6-30-12 to 6-30-16	9,242,645	7,455,875	1,786,770
6-30-17 to 6-30-21	4,906,914	4,396,706	510,208
6-30-22 to 6-30-23	1,229,625	1,185,000	44,625
	<u>\$24,628,043</u>	<u>\$19,316,284</u>	<u>\$5,311,757</u>
<u>Year Ended</u>	<u>Component Unit Activities</u>		
	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
6-30-07	\$ 550,438	\$ 305,000	\$ 245,438
6-30-08	545,912	315,000	230,912
6-30-09	550,898	335,000	215,898
6-30-10	489,710	290,000	199,710
6-30-11	492,385	305,000	187,385
6-30-12 to 6-30-16	2,484,190	1,755,000	729,190
6-30-17 to 6-30-21	2,487,625	2,185,000	302,625
	<u>\$7,601,158</u>	<u>\$5,490,000</u>	<u>\$2,111,158</u>

The City of Fenton was a participant in the county-wide sanitary sewer construction program under Act 342 Michigan Compiled Laws. This program was financed by general obligation bonds issued by Genesee County. The City of Fenton has contracts with Genesee County Water and Waste Services for the cost of the construction of the sewer system within its boundaries. The City of Fenton has pledged the full faith and credit of the City to the prompt payment of the City's share of the principal and interest payments on these contracts as they become due. From information received from Genesee County, the assets relating to those contracts have been recorded in the Sewer Fund of the City to reflect the actual construction cost of the above mentioned systems. The contract principal portion owed by the City of Fenton has been recorded in the Sewer Fund. The Water Revolving Fund Bonds are supported by the revenues of the Water System.

City of Fenton, Michigan
Notes to Financial Statements
Year Ended June 30, 2006

2. Detail notes on all funds – (continued)

G. Long-term debt – (continued)

The Downtown Development Authority of the City of Fenton in 1994 issued tax increment downtown development bonds supported by the limited tax full faith and credit pledge of the City of Fenton in the amount of \$690,000. In 2002, the Downtown Development Authority of the City of Fenton issued general obligation tax development bonds supported by the limited tax full faith and credit pledge of the City of Fenton in the amount of \$9,600,000. The City's limited tax full faith, credit and resources, in addition to the tax increment revenues primarily pledged, shall be pledged secondarily as a first budget obligation for the prompt payment of the principal and interest on the bonds as the same become due.

Interest is payable on all obligations semi-annually, except for the note payable on the fire truck, which is annually. Principal is paid on an annual basis.

Act 279, Public Acts of State 1909, as amended, provides that net indebtedness of cities cannot exceed 10% of the assessed real and personal property in the City. As of June 30, 2006, the City of Fenton has incurred \$5,490,000 of indebtedness which is limited under Act 279 and \$49,467,298 of additional debt may be incurred. The City's other existing long-term obligations are specifically exempted from consideration of the 10% limit computation.

H. Risk management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for property loss, torts, errors and omissions, and medical benefit claims and participants in the Michigan Municipal League (MML) risk pool for claims relating to worker's compensation; the City is uninsured for acts of God and environmental cleanup loss. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

City of Fenton
Notes to Financial Statements
June 30, 2006

2. Detail notes on all funds – (continued)

I. Revenues and expenditures:

Property taxes

Property taxes are levied based on assessed values of property located in the City. Assessed values are established annually and equalized by the state at an estimated 50% of current market value. A comparison of assessed and taxable property values for the 2005 tax levy is as follows:

	<u>Assessed Value</u>	<u>Taxable Value</u>
Real property	\$508,959,582	\$380,203,804
Personal property	40,613,400	40,613,400
Total	<u>\$549,572,982</u>	<u>\$420,817,204</u>

The City is permitted by charter to levy up to \$13.00 (13 mills) per \$1,000 of taxable value per the City Charter. It is also permitted to levy unlimited amounts for repayment of existing general long term debt obligations, except for Michigan Transportation Fund Act 51 Debt. For the year ended June 30, 2005, \$10.71 per \$1,000 were levied for general governmental services and is recorded in the general fund.

J. Interfund receivables and payables, and transfers:

The composition of interfund balances as of June 30, 2006 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water	\$ 102,587
Other governmental funds	General	15,000
Other governmental funds	Water	3,014
Fire Equipment	General	373,110
Equipment	Sewer	4,947
	Other governmental funds	50,623
Sick Pay	Sewer	595
	Water	14,001
	General	2,506
	Other governmental funds	10,000
Sewer	Water	1,518,745
	General	102,587
Water	Sewer	<u>16,358</u>
Total		<u>\$2,214,073</u>

City of Fenton
Notes to Financial Statements
June 30, 2006

2. Detail notes on all funds – (continued)

J. Interfund receivables and payables, and transfers: – (continued)

Due to/from primary government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Component Unit - DDA	Primary government – general fund	\$ 9
Component Unit – LFDA	Primary government – general fund	<u>5,240</u>
Total		<u><u>\$5,249</u></u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds and component units are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund providing resources</u>	<u>Fund receiving resources</u>	<u>Amount</u>
General	Major Street	\$ 115,000
General	Local Street	120,000
General	Parks and Recreation	217,000
General	Cemetery	30,000
General	Capital Projects	370,000
General	Fire Equipment	170,000
General	Sick Pay	16,400
Major Street	Local Street	125,000
Capital Projects	Major Street	150,000
Capital Projects	Local Street	200,000
Working Capital	General	<u>17,587</u>
Total		<u><u>\$1,530,987</u></u>

Transfers are for operating purposes.

The transfers from the General Fund to the Fire Equipment and Other Governmental Funds represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations; the transfer from the Major Street Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51; the transfer from the Other Governmental Funds to Major and Local Street Funds represents the movement of resources to finance those programs.

3. Summary disclosure of significant contingencies and commitments

Contingent liabilities:

Federal and state grants

Under the terms of certain federal and state grants, periodic audits are required and certain costs may be questioned as not representing appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, would be minimal.

City of Fenton
Notes to Financial Statements
June 30, 2006

4. Construction code revenues/expenditures

The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that Act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operation of the enforcing agency. The rules indicated that if the revenues exceeded the expenditures, the fees collected must be kept in a separate fund with all the revenues and expenditures accounted for in that fund. These rules allowed for monitoring these funds in a separate activity center within the General Fund if the expenditures would normally exceed revenues. The City chose the latter because historically the expenditures have exceeded revenues. The activity related to construction code activity for the year ended June 30, 2006 is as follows:

Beginning balance (shortfall)		\$(298,401)
Construction permit revenue	\$ 89,967	
Expenditures:		
Professional services	<u>236,199</u>	
Revenue over (under) expenditures		<u>(146,232)</u>
Ending balance (shortfall)		<u><u>\$(444,633)</u></u>

5. Federal awards

It is required by the Michigan Department of Transportation (MDOT) that governmental units report total federal awards for Highway Research, Planning and Construction pertaining to their unit. However, only the federal awards applicable to force account expenditures are required to be audited for compliance under the Single Audit Act. The reason for this requirement is that the City is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended June 30, 2006, the City of Fenton did not have \$500,000 in total federal awards. As a result, an audit for compliance under the Single Audit Act has not been performed.

6. Budget compliance

The following funds incurred expenditures in excess of final budget amounts:

	<u>Actual over Budget</u>
General Fund – Protective Inspection	\$10,699
General Fund - Transfers out	26,400
Major Streets - Highways and streets	50,520
Parks and Recreation – Recreation and cultural	4,783
Cemetery	4,239
Emergency 911 – Public safety	3,437

**Required Supplementary
Information Section**

City of Fenton
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
General Fund
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			Variance- Under (Over)
	Original	Final	Actual	
Revenues:				
Taxes	\$ 4,375,346	\$ 4,257,505	\$ 4,230,989	\$ (26,516)
Licenses and permits	182,000	202,000	219,417	17,417
Intergovernmental revenue				
State	902,900	894,630	891,252	(3,378)
Charges for services	217,050	206,050	225,268	19,218
Fines and forfeits	88,000	88,000	100,282	12,282
Interest	50,000	70,000	84,558	14,558
Refunds and reimbursements	1,000	120	120	-
Miscellaneous revenue	18,000	37,709	46,778	9,069
Total revenues	<u>5,834,296</u>	<u>5,756,014</u>	<u>5,798,664</u>	<u>42,650</u>
Expenditures:				
Current:				
Legislative and executive	209,950	213,485	197,051	16,434
General governmental:				
General services administration	1,466,000	1,322,855	1,283,627	39,228
Public safety:				
Police	1,962,760	2,082,760	2,052,845	29,915
Fire	658,360	744,760	715,547	29,213
Protective inspection	254,000	225,500	236,199	(10,699)
Total public safety	<u>2,875,120</u>	<u>3,053,020</u>	<u>3,004,591</u>	<u>48,429</u>
Public works:				
Public service	254,469	368,660	316,180	52,480
Community service	109,200	121,735	104,499	17,236
Debt Service:				
Principal	59,834	50,760	50,760	-
Interest and fiscal charges	9,504	7,975	7,973	2
Total debt service	<u>69,338</u>	<u>58,735</u>	<u>58,733</u>	<u>2</u>
Capital outlay	-	-	-	-
Total expenditures	<u>4,984,077</u>	<u>5,138,490</u>	<u>4,964,681</u>	<u>173,809</u>
Revenues over expenditures	<u>850,219</u>	<u>617,524</u>	<u>833,983</u>	<u>216,459</u>
Other financing sources (uses)				
Transfers in	25,000	75,000	17,587	(57,413)
Transfers out	(980,000)	(1,012,000)	(1,038,400)	(26,400)
Total other financing uses	<u>(955,000)</u>	<u>(937,000)</u>	<u>(1,020,813)</u>	<u>(83,813)</u>
Net change in fund balance	(104,781)	(319,476)	(186,830)	132,646
Fund balance - beginning of year	1,544,754	1,544,754	1,544,754	-
Fund balance - end of year	<u>\$ 1,439,973</u>	<u>\$ 1,225,278</u>	<u>\$ 1,357,924</u>	<u>\$ 132,646</u>

Note: Budgetary basis is the same as generally accepted accounting principle:

**Combining Fund and Individual
Financial Statements**

Nonmajor Governmental Funds

City of Fenton
Combining Balance Sheet
Nonmajor Funds
June 30, 2006

	Special Revenue Funds	Debt Service Fund - Sewer	Capital Projects Funds	Totals
Assets				
Cash and cash equivalents	\$ 593,193	\$ -	\$ 139,417	\$ 732,610
Accounts receivable	83,072	-	-	83,072
Special assessment receivables	-	-	71,561	71,561
Accrued interest	2,680	-	891	3,571
Due from other funds	18,014	-	-	18,014
Due from other governments	16,000	-	-	16,000
Inventory	5,875	-	-	5,875
Total assets	\$ 718,834	\$ -	\$ 211,869	\$ 930,703
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 66,002	\$ -	\$ -	\$ 66,002
Accrued liabilities	9,350	-	-	9,350
Deposits payable	4,071	-	-	4,071
Due to other funds	60,623	-	-	60,623
Deferred revenue	5,000	-	71,561	76,561
Total liabilities	145,046	-	71,561	216,607
Fund balances:				
Reserved:				
Reserved for inventory	5,875	-	-	5,875
Unreserved	567,913	-	140,308	708,221
Total fund balance	573,788	-	140,308	714,096
Total liabilities and fund balances	\$ 718,834	\$ -	\$ 211,869	\$ 930,703

City of Fenton
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Funds
Year Ended June 30, 2006

	Special Revenue Funds	Debt Service Fund - Sewer	Capital Projects Funds	Totals
Revenues:				
Intergovernmental revenue:				
Federal	\$ 34,600	\$ -	\$ -	\$ 34,600
State	715,917		-	715,917
Special assessments	-	-	9,630	9,630
Charges for services	704,656	-	-	704,656
Interest	19,488	-	14,273	33,761
Miscellaneous revenue	8,088	-	-	8,088
Total revenues	1,482,749	-	23,903	1,506,652
Expenditures:				
Current:				
Public safety	219,241	-	-	219,241
Public works:				
Highways and streets	1,322,168		-	1,322,168
Garbage collection	420,013	-	-	420,013
Recreation and cultural	283,083	-	-	283,083
Cemetery	72,109	-	-	72,109
Capital outlay	-	-	-	-
Debt service:				
Principal payments	-	-	-	-
Interest and fiscal charges	-	1,232	-	1,232
Total expenditures	2,316,614	1,232	-	2,317,846
Revenues under expenditures	(833,865)	(1,232)	23,903	(811,194)
Other financing sources (uses):				
Transfers in	957,000	-	370,000	1,327,000
Transfers out	(125,000)	-	(367,587)	(492,587)
Total other financing sources	832,000	-	2,413	834,413
Net change in fund balances	(1,865)	(1,232)	26,316	23,219
Fund balances - beginning of year	575,653	1,232	113,992	690,877
Fund balances - end of year	\$ 573,788	\$ -	\$ 140,308	\$ 714,096

Nonmajor Governmental Funds

Special Revenue Funds

Major and Local Street Funds – To account for the City's share of proceeds from gas and weight taxes levied by the State and distributed to local governmental units. State law requires that these taxes be used for street maintenance and construction.

Budget Stabilization Fund – To account for those funds appropriated by the governing body of the municipality for budget stabilization purposes. Money in the budget stabilization fund may be appropriated by an ordinance or resolution for the following purposes: 1) to cover a general fund deficit; 2) to prevent a reduction in the level of public services or in the number of employees at any time in a fiscal year when budgeted revenue is not being collected in an amount sufficient to cover budgeted expenses; 3) to prevent a reduction in the level of public services or in the number of employees when, in preparing the budget for the next fiscal year, the estimated revenue does not appear sufficient to cover estimated expenses; and 4) to cover expenses arising because of a natural disaster.

Parks and Recreation – To account for the activity related to the operation of the City's parks and recreation programs which are funded through user charges and donations.

Cemetery Fund – To account for the operation of the City's cemetery which is financed primarily through charges for services.

Community Development Fund – To account for revenues earned and expenditures incurred by the City as a sub-grantee of the Community Development Block Grant Program. The program includes projects for street paving, sidewalk construction, waterline improvements, and other community services.

Emergency 911 Fund – To account for the monthly telephone surcharges assessed for emergency services that are received from Genesee County which are used to cover the costs related to the operation of the City's 911 system.

Garbage Collection Fund – To account for quarterly customer charges and charges for bags and tags which are to be used to pay contracted services for garbage collection.

Narcotics Enforcement Fund – To account for confiscated funds which are used by the Police Department to enhance local narcotics enforcement.

D.A.R.E. Fund – To account for the activity of the Drug Abuse Resistance Education Program. The City Police Department has set up the program to provide drug education to local elementary school students.

**City of Fenton
Combining Balance Sheet
Nonmajor Special Revenue Funds
38898**

	Major Street	Local Street	Budget Stabilization
Assets			
Cash and cash equivalents	\$ 31,306	\$ 44,424	\$ 299,524
Accounts receivable			-
Accrued interest	666	-	-
Due from other funds	15,000	-	-
Due from other government	16,000	-	-
Inventory	-	-	-
Total assets	<u>\$ 62,972</u>	<u>\$ 44,424</u>	<u>\$ 299,524</u>
Liabilities and Fund Balance			
Liabilities:			
Accounts payable	\$ 50,104	\$ 4,773	\$ -
Accrued liabilities	2,161	3,570	-
Deposits payable	-	-	-
Due to other funds	-	-	-
Deferred revenue	-	-	-
Total liabilities	<u>52,265</u>	<u>8,343</u>	<u>-</u>
Fund balances:			
Reserved:			
Reserved for inventory	-	-	-
Unreserved	10,707	36,081	299,524
Total fund balance	<u>10,707</u>	<u>36,081</u>	<u>299,524</u>
Total liabilities and fund balances	<u>\$ 62,972</u>	<u>\$ 44,424</u>	<u>\$ 299,524</u>

Parks and Recreation	Cemetery	Community Development	Emergency 911	Garbage Collection	Narcotics Enforcement
\$ 15,383	\$ 170,376	\$ -	\$ -	\$ -	\$ 7,743
-	3,099	-	-	79,973	-
88	1,725	-	-	-	47
-	-	-	-	3,014	-
-	-	-	-	-	-
-	-	-	-	5,875	-
<hr/>					
\$ 15,471	\$ 175,200	\$ - 0 -	\$ - 0 -	\$ 88,862	\$ 7,790
<hr/>					

\$ 3,663	\$ 7,391	\$ -	\$ -	\$ -	\$ 71
3,619	-	-	-	-	-
3,710	361	-	-	-	-
-	-	-	-	60,623	-
-	5,000	-	-	-	-

10,992	12,752	-	-	60,623	71
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-	-	-	-	5,875	-
4,479	162,448	-	-	22,364	7,719

4,479	162,448	-	-	28,239	7,719
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\$ 15,471	\$ 175,200	\$ - 0 -	\$ - 0 -	\$ 88,862	\$ 7,790
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(continued)

City of Fenton
Combining Balance Sheet (continued)
Nonmajor Special Revenue Funds
38898

	D.A.R.E.	Total
Assets		
Cash and cash equivalents	\$ 24,437	\$ 593,193
Accounts receivable	-	83,072
Accrued interest	154	2,680
Due from other funds	-	18,014
Due from other government	-	16,000
Inventory	-	5,875
Total assets	\$ 24,591	\$ 718,834
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$ -	\$ 66,002
Accrued liabilities	-	9,350
Deposits payable	-	4,071
Due to other funds	-	60,623
Deferred revenue	-	5,000
Total liabilities	-	145,046
Fund balances:		
Reserved:		
Reserved for inventory	-	5,875
Unreserved	24,591	567,913
Total fund balance	24,591	573,788
Total liabilities and fund balances	\$ 24,591	\$ 718,834

City of Fenton
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2006

	Major Street	Local Street	Budget Stabilization
Revenues:			
Intergovernmental revenue			
Federal	\$ -	\$ -	\$ -
State	497,473	218,444	-
Charges for services	-	-	-
Interest	5,310	2,774	-
Miscellaneous revenue	3,781	-	-
Total revenues	506,564	221,218	-
Expenditures:			
Current:			
Public safety	-	-	-
Public works:	-	-	-
Highways and streets	680,450	641,718	-
Garbage collection	-	-	-
Recreation and cultural	-	-	-
Cemetery	-	-	-
Total expenditures	680,450	641,718	-
Revenues over (under) expenditures	(173,886)	(420,500)	-
Other financing sources (uses)			
Transfers in	265,000	445,000	-
Transfers out	(125,000)	-	-
Total other financing sources	140,000	445,000	-
Net change in fund balances:	(33,886)	24,500	-
Fund balances - beginning of year	44,593	11,581	299,524
Fund balances - end of year	\$ 10,707	\$ 36,081	\$ 299,524

Parks and Recreation	Cemetery	Community Development	Emergency 911	Garbage Collection	Narcotics Enforcement
\$ -	\$ -	\$ 34,600	\$ -	\$ -	\$ -
-	-	-	-	-	-
24,859	31,887	-	206,437	441,473	-
2,788	7,060	-	-	-	487
2,500	-	-	-	-	1,491
30,147	38,947	34,600	206,437	441,473	1,978
-	-	-	206,437	-	11,805
-	-	-	-	-	-
-	-	-	-	420,013	-
248,483	-	34,600	-	-	-
-	72,109	-	-	-	-
248,483	72,109	34,600	206,437	420,013	11,805
(218,336)	(33,162)	-	-	21,460	(9,827)
217,000	30,000	-	-	-	-
-	-	-	-	-	-
217,000	30,000	-	-	-	-
(1,336)	(3,162)	-	-	21,460	(9,827)
5,815	165,610	-	-	6,779	17,546
\$ 4,479	\$ 162,448	\$ - 0 -	\$ - 0 -	\$ 28,239	\$ 7,719

(continued)

City of Fenton
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances (continued)
Nonmajor Special Revenue Funds
Year Ended June 30, 2006

	D.A.R.E.	Total
Revenues:		
Intergovernmental revenue		
Federal	\$ -	\$ 34,600
State	-	715,917
Charges for services	-	704,656
Interest	1,069	19,488
Miscellaneous revenue	316	8,088
Total revenues	1,385	1,482,749
Expenditures:		
Current:		
Public safety	999	219,241
Public works:		
Highways and streets	-	1,322,168
Garbage collection	-	420,013
Recreation and cultural	-	283,083
Cemetery	-	72,109
Total expenditures	999	2,316,614
Revenues over (under) expenditures	386	(833,865)
Other financing sources (uses)		
Transfers in	-	957,000
Transfers out	-	(125,000)
Total other financing sources	-	832,000
Net change in fund balances:	386	(1,865)
Fund balances - beginning of year	24,205	575,653
Fund balances - end of year	\$ 24,591	\$ 573,788

City of Fenton
Combining Schedules of Revenues, Expenditures, and Changes
in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
Year Ended June 30, 2006

		Major Street		
		Budgeted Amounts		Variance-
		Original	Final	Under
				(Over)
Revenues:				
Intergovernmental revenue				
Federal	\$	-	\$	-
State		543,600	534,900	497,473
Charges for services		-	-	-
Interest		1,500	1,000	5,310
Miscellaneous revenue		-	3,800	3,781
				(19)
Total revenues		545,100	539,700	506,564
				(33,136)
Expenditures:				
Current:				
Public safety		-	-	-
Public works:				
Highways and streets		709,400	629,930	680,450
Garbage collection		-	-	-
Recreation and cultural		-	-	-
Cemetery		-	-	-
Total expenditures		709,400	629,930	680,450
				(50,520)
Revenues over (under) expenditures		(164,300)	(90,230)	(173,886)
				(83,656)
Other financing sources (uses)				
Transfers in		230,000	230,000	265,000
Transfers out		(150,000)	(125,000)	(125,000)
				35,000
				-
Total other financing sources		80,000	105,000	140,000
				35,000
Net change in fund balances:		(84,300)	14,770	(33,886)
				(48,656)
Fund balances - beginning of year		44,593	44,593	44,593
				-
Fund balances - end of year	\$	(39,707)	\$	59,363
			\$	10,707
				\$
				(48,656)

Local Street				Budget Stabilization			
Budgeted Amounts		Actual	Variance- Under (Over)	Budgeted Amounts		Actual	Variance- Under (Over)
Original	Final			Original	Final		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
225,900	224,700	218,444	(6,256)	-	-	-	-
-	-	-	-	-	-	-	-
1,000	1,500	2,774	1,274	-	-	-	-
-	-	-	-	-	-	-	-
226,900	226,200	221,218	(4,982)	-	-	-	-
-	-	-	-	-	-	-	-
692,230	654,050	641,718	12,332	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
692,230	654,050	641,718	12,332	-	-	-	-
(465,330)	(427,850)	(420,500)	7,350	-	-	-	-
470,000	445,000	445,000	-	-	-	-	-
-	-	-	-	-	-	-	-
470,000	445,000	445,000	-	-	-	-	-
4,670	17,150	24,500	7,350	-	-	-	-
11,581	11,581	11,581	-	299,524	299,524	299,524	-
\$ 16,251	\$ 28,731	\$ 36,081	\$ 7,350	\$ 299,524	\$ 299,524	\$ 299,524	\$ - 0 -

(continued)

City of Fenton
Combining Schedules of Revenues, Expenditures, and Changes
in Fund Balances - Budget and Actual (continued)
Nonmajor Special Revenue Funds
Year Ended June 30, 2006

Parks and Recreation				
Budgeted Amounts				Variance- Under (Over)
Original	Final	Actual		
Revenues:				
Intergovernmental revenue				
Federal	\$ -	\$ -	\$ -	\$ -
State	-	-	-	-
Charges for services	24,000	23,000	24,859	1,859
Interest	1,000	500	2,788	2,288
Miscellaneous revenue	-	2,500	2,500	-
Total revenues	25,000	26,000	30,147	4,147
Expenditures:				
Current:				
Public safety	-	-	-	-
Public works:				
Highways and streets	-	-	-	-
Garbage collection	-	-	-	-
Recreation and cultural	219,850	243,700	248,483	(4,783)
Cemetery	-	-	-	-
Total expenditures	219,850	243,700	248,483	(4,783)
Revenues over (under) expenditures	(194,850)	(217,700)	(218,336)	(636)
Other financing sources (uses)				
Transfers in	185,000	217,000	217,000	-
Transfers out	-	-	-	-
Total other financing sources	185,000	217,000	217,000	-
Net change in fund balances	(9,850)	(700)	(1,336)	(636)
Fund balances - beginning of year	5,815	5,815	5,815	-
Fund balances - end of year	\$ (4,035)	\$ 5,115	\$ 4,479	\$ (636)

Cemetery				Community Block Grant Fund			
Budgeted Amounts		Actual	Variance- Under (Over)	Budgeted Amounts		Actual	Variance- Under (Over)
Original	Final			Original	Final		
\$ -	\$ -	\$ -	\$ -	\$ 79,730	\$ 86,580	\$ 34,600	\$ (51,980)
-	-	-	-	-	-	-	-
30,000	25,100	31,887	6,787	-	-	-	-
200	200	7,060	6,860	-	-	-	-
-	-	-	-	-	-	-	-
30,200	25,300	38,947	13,647	79,730	86,580	34,600	(51,980)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	79,730	35,000	34,600	400
66,070	67,870	72,109	(4,239)	-	-	-	-
66,070	67,870	72,109	(4,239)	79,730	35,000	34,600	400
(35,870)	(42,570)	(33,162)	9,408	-	51,580	-	(51,580)
30,000	30,000	30,000	-	-	-	-	-
(2,060)	(1,000)	-	1,000	-	-	-	-
27,940	29,000	30,000	1,000	-	-	-	-
(7,930)	(13,570)	(3,162)	10,408	-	51,580	-	(51,580)
165,610	165,610	165,610	-	-	-	-	-
\$ 157,680	\$ 152,040	\$ 162,448	\$ 10,408	\$ - 0 -	\$ 51,580	\$ - 0 -	\$ (51,580)

(continued)

City of Fenton
Combining Schedules of Revenues, Expenditures, and Changes
in Fund Balances - Budget and Actual (continued)
Nonmajor Special Revenue Funds
Year Ended June 30, 2006

Emergency 911				
	Budgeted Amounts		Actual	Variance- Under (Over)
	Original	Final		
Revenues:				
Intergovernmental revenue				
Federal	\$ -	\$ -	\$ -	\$ -
State	-	-	-	-
Charges for services	203,000	203,000	206,437	3,437
Interest	-	-	-	-
Miscellaneous revenue	-	-	-	-
Total revenues	203,000	203,000	206,437	3,437
Expenditures:				
Current:				
Public safety	203,000	203,000	206,437	(3,437)
Public works:				
Highways and streets	-	-	-	-
Garbage collection	-	-	-	-
Recreation and cultural	-	-	-	-
Cemetery	-	-	-	-
Total expenditures	203,000	203,000	206,437	(3,437)
Revenues over (under) expenditures	-	-	-	-
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources	-	-	-	-
Net change in fund balances:	-	-	-	-
Fund balances - beginning of year	-	-	-	-
Fund balances - end of year	\$ - 0 -	\$ - 0 -	\$ - 0 -	\$ - 0 -

Garbage Collection Fund				Narcotics Enforcement			
Budgeted Amounts		Actual	Variance- Under (Over)	Budgeted Amounts		Actual	Variance- Under (Over)
Original	Final			Original	Final		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
470,000	440,000	441,473	1,473	-	-	-	-
-	-	-	-	200	200	487	287
-	-	-	-	10,000	1,000	1,491	491
470,000	440,000	441,473	1,473	10,200	1,200	1,978	778
-	-	-	-	7,500	12,000	11,805	195
-	-	-	-	-	-	-	-
430,250	425,250	420,013	5,237	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
430,250	425,250	420,013	5,237	7,500	12,000	11,805	195
39,750	14,750	21,460	6,710	2,700	(10,800)	(9,827)	973
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
39,750	14,750	21,460	6,710	2,700	(10,800)	(9,827)	973
6,779	6,779	6,779	-	17,546	17,546	17,546	-
\$ 46,529	\$ 21,529	\$ 28,239	\$ 6,710	\$ 20,246	\$ 6,746	\$ 7,719	\$ 973

(continued)

City of Fenton
Combining Schedules of Revenues, Expenditures, and Changes
in Fund Balances - Budget and Actual (continued)
Nonmajor Special Revenue Funds
Year Ended June 30, 2006

D.A.R.E.				
Budgeted Amounts			Variance- Under Under (Over)	
Original	Final	Actual		
Revenues:				
Intergovernmental revenue				
Federal	\$ -	\$ -	\$ -	\$ -
State	-	-	-	-
Charges for services	-	-	-	-
Interest	350	350	1,069	719
Miscellaneous revenue	600	600	316	(284)
Total revenues	950	950	1,385	435
Expenditures:				
Current:				
Public safety	1,500	1,500	999	501
Public works:				
Highways and streets	-	-	-	-
Garbage collection	-	-	-	-
Recreation and cultural	-	-	-	-
Cemetery	-	-	-	-
Total expenditures	1,500	1,500	999	501
Revenues over (under) expenditures	(550)	(550)	386	936
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources	-	-	-	-
Net change in fund balances	(550)	(550)	386	936
Fund balances - beginning of year	24,205	24,205	24,205	-
Fund balances - end of year	\$ 23,655	\$ 23,655	\$ 24,591	\$ 936

T o t a l s			
Budgeted Amounts		Actual	Variance- Under (Over)
Original	Final		
\$ 79,730	\$ 86,580	\$ 34,600	\$ (51,980)
769,500	759,600	715,917	(43,683)
727,000	691,100	704,656	13,556
4,250	3,750	19,488	15,738
10,600	7,900	8,088	188
1,591,080	1,548,930	1,482,749	(66,181)
212,000	216,500	219,241	(2,741)
1,401,630	1,283,980	1,322,168	(38,188)
430,250	425,250	420,013	5,237
299,580	278,700	283,083	(4,383)
66,070	67,870	72,109	(4,239)
2,409,530	2,272,300	2,316,614	(44,314)
(818,450)	(723,370)	(833,865)	(110,495)
915,000	922,000	957,000	35,000
(152,060)	(126,000)	(125,000)	1,000
762,940	796,000	832,000	36,000
(55,510)	72,630	(1,865)	(74,495)
575,653	575,653	575,653	-
\$ 520,143	\$ 648,283	\$ 573,788	\$ (74,495)

Capital Project Funds

Capital Improvement Projects (C.I.P.) Fund – To account for contributions from the General Fund equaling 1.5 mills of the City's total tax levy. These funds are primarily used for Major and Local Street Fund capital improvement projects and storm drain construction.

Working Capital Fund – To account for financial resources to be used for the acquisition or construction of major capital projects.

City of Fenton
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2006

	C.I.P. Fund	Working Capital Fund	Total
<hr/>			
Assets			
Cash and cash equivalents	\$ 25,222	\$ 114,195	\$ 139,417
Special assessments receivable			
Current	-	-	-
Long-term	-	71,561	71,561
Accrued interest	149	742	891
Due from other funds	-	-	-
	<hr/>		
Total assets	\$ 25,371	\$ 186,498	\$ 211,869
	<hr/> <hr/>		
Liabilities and Fund Balance			
Liabilities:			
Deferred revenue	\$ -	\$ 71,561	\$ 71,561
	<hr/>		
Total liabilities	-	71,561	71,561
	<hr/>		
Fund balances:			
Unreserved	25,371	114,937	140,308
	<hr/>		
Total liabilities and fund balances	\$ 25,371	\$ 186,498	\$ 211,869
	<hr/> <hr/>		

City of Fenton
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Capital Projects Funds
Year Ended June 30, 2006

	C.I.P. Fund	Working Capital Fund	Total
Revenues:			
Special assessments	\$ -	\$ 9,630	\$ 9,630
Interest	3,522	10,751	14,273
Total revenues	3,522	20,381	23,903
Expenditures:			
Capital outlay	-	-	-
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	-	-	-
Revenues over (under) expenditures	3,522	20,381	23,903
Other financing sources (uses)			
Transfers in	370,000	-	370,000
Transfers out	(350,000)	(17,587)	(367,587)
Total other financing sources (uses)	20,000	(17,587)	2,413
Net change in fund balances:	23,522	2,794	26,316
Fund balances - beginning of year	1,849	112,143	113,992
Fund balances - end of year	\$ 25,371	\$ 114,937	\$ 140,308

Internal Service Funds

Equipment Fund – To account for the costs of operating and maintaining certain automotive and street maintenance equipment used by other City departments. Such costs are billed to the other departments based on rental rates established by the State of Michigan Department of Highways and Transportation. Actual costs include depreciation on the machinery and equipment used to provide the service. The majority of the machinery and equipment maintained in this fund was purchased by other City departments. Replacement of the assets will be financed by Equipment Fund resources and continued contributions from other funds.

Sick Pay Fund – To account for the financing of accumulated sick pay earned by City employees. City funds contribute resources equal to the amounts earned by the employees during the current period.

City of Fenton
Combining Statement of Net Assets
Internal Service Funds
June 30, 2006

	Equipment	Sick Pay	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 326,446	\$ 203,781	\$ 530,227
Investments	-	176	176
Accrued interest	2,185	4,645	6,830
Due from other funds	55,570	27,102	82,672
Total current assets	384,201	235,704	619,905
Noncurrent assets:			
Capital assets:			
Machinery and equipment	1,509,852	-	1,509,852
Less accumulated depreciation	(1,043,777)	-	(1,043,777)
Total capital assets (net of accumulated depreciation)	466,075	-	466,075
Total assets	850,276	235,704	1,085,980
Liabilities			
Current liabilities:			
Accounts payable	14,682	-	14,682
Accrued liabilities	40	-	40
Compensated absences	-	235,704	235,704
Capital leases payable - current	20,576	-	20,576
Total current liabilities	35,298	235,704	271,002
Noncurrent liabilities			
Capital leases payable	44,131	-	44,131
Total liabilities	79,429	235,704	315,133
Net Assets			
Invested in capital assets	401,368	-	401,368
Unrestricted	369,479	-	369,479
Total net assets	\$ 770,847	\$ - 0 -	\$ 770,847

City of Fenton
Combining Statement of Revenues, Expenses
and Changes in Fund Net Assets
Internal Service Funds
Year Ended June 30, 2006

	Equipment	Sick Pay	Total
Operating revenues:			
Charges for service	\$ 374,789	\$ -	\$ 374,789
Other income	-	-	-
Total operating revenue	374,789	-	374,789
Operating expenses:			
Wages and salaries	17,264	24,825	42,089
Supplies	5,395	-	5,395
Gas and oil	47,855	-	47,855
Heat, power, and lights	41,163	-	41,163
Accrued interest	100,824	-	100,824
Equipment rent	164	-	164
Depreciation	134,179	-	134,179
Insurance	31,818	-	31,818
Miscellaneous	1,039	-	1,039
Total operating expenses	379,701	24,825	404,526
Operating income (loss)	(4,912)	(24,825)	(29,737)
Nonoperating revenues (expenses)			
Interest on investments	13,520	8,425	21,945
Interest expense	(4,007)	-	(4,007)
Gain on sale of fixed assets	30,564	-	30,564
Total non-operating revenues	40,077	8,425	48,502
Income (loss) before transfers	35,165	(16,400)	18,765
Transfers in	-	16,400	16,400
Change in net assets	35,165	-	35,165
Net assets - beginning of year	735,682	-	735,682
Net assets - end of year	\$ 770,847	\$ - 0 -	\$ 770,847

City of Fenton
Combining Statement of Cash Flows
Internal Service Funds
Year Ended June 30, 2006

	Equipment	Sick Pay	Total
Cash flows from operating activities			
Receipts from quasi-external transactions	\$ 374,715	\$ -	\$ 374,715
Payments to suppliers	(282,446)	-	(282,446)
Payments to employees	(17,476)	(16,399)	(33,875)
Net cash provided in (used in) operating activities	74,793	(16,399)	58,394
Cash flows from noncapital financing activities:			
Transfers in	-	16,400	16,400
Net cash provided by noncapital financing activities	-	16,400	16,400
Cash flows from capital and related financing activities			
Proceeds from sale of capital assets	42,938	-	42,938
Acquisition of capital assets	(277,004)	-	(277,004)
Principal paid on capital lease	(23,650)	-	(23,650)
Net cash used in capital and related financing activities	(257,716)	-	(257,716)
Cash flows from investing activities			
Interest earned	13,932	3,780	17,712
Net cash provided by investing activities	13,932	3,780	17,712
Net increase (decrease) in cash and cash equivalent	(168,991)	3,781	(165,210)
Cash and cash equivalents - beginning of year	495,437	200,000	695,437
Cash and cash equivalents - end of year	\$ 326,446	\$ 203,781	\$ 530,227
Reconciliation of operating loss to net cash provided by (used in) operating activities			
Operating loss	\$ (4,912)	\$ (24,825)	\$ (29,737)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities			
Depreciation	134,179	-	134,179
(Increase) decrease in assets			
Due from other funds	(50,697)	(7,976)	(58,673)
Due from component units	-	-	-
Increase (decrease) in liabilities			
Accounts payable	(3,565)	-	(3,565)
Accrued liabilities	(212)	16,402	16,190
Total adjustments	79,705	8,426	88,131
Net cash provided in (used in) operating activities	\$ 74,793	\$ (16,399)	\$ 58,394

Fiduciary Funds

Agency Funds

Current Tax Collection Fund – To account for the collection and payment to the county, school districts, and other City funds of property taxes collected by the City on their behalf.

Employees Union – To account for amounts withheld from City employee payroll related to union dues and related payments.

**City of Fenton
Combining Balance Sheet
Fiduciary Funds
June 30, 2006**

	<u>Agency Funds</u>		
	Tax Collection	Employees Union	Total
Assets			
Cash and cash equivalents	\$ 15,569	\$ 7,220	\$ 22,789
Total assets	<u>\$ 15,569</u>	<u>\$ 7,220</u>	<u>\$ 22,789</u>
Liabilities			
Liabilities:			
Accounts payable	\$ 1,984	\$ -	\$ 1,984
Due to other governments	13,585	-	13,585
Due to employees - union groups	-	7,220	7,220
Total liabilities	<u>\$ 15,569</u>	<u>\$ 7,220</u>	<u>\$ 22,789</u>

City of Fenton
Statement of Changes in Assets and Liabilities
Agency Funds
Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<u>Tax Collection Fund</u>				
Assets				
Cash and cash equivalents	\$ 10,158	\$ 18,836,647	\$ 18,831,236	\$ 15,569
Total assets	<u>\$ 10,158</u>	<u>\$ 18,836,647</u>	<u>\$ 18,831,236</u>	<u>\$ 15,569</u>
Liabilities				
Accounts payable	\$ 3,136	\$ 2,368	\$ 3,520	\$ 1,984
Due to other governments	7,022	18,840,167	18,833,604	13,585
Total liabilities	<u>\$ 10,158</u>	<u>\$ 18,842,535</u>	<u>\$ 18,837,124</u>	<u>\$ 15,569</u>
<u>Employees' Union</u>				
Assets				
Cash and cash equivalents	\$ 7,220	\$ - 0 -	\$ - 0 -	\$ 7,220
Liabilities				
Due to employees - union group	\$ 7,220	\$ - 0 -	\$ - 0 -	\$ 7,220
<u>Total All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ 17,378	\$ 18,836,647	\$ 18,831,236	\$ 22,789
Total assets	<u>\$ 17,378</u>	<u>\$ 18,836,647</u>	<u>\$ 18,831,236</u>	<u>\$ 22,789</u>
Liabilities				
Accounts payable	\$ 3,136	\$ 2,368	\$ 3,520	\$ 1,984
Due to other governments	7,022	18,840,167	18,833,604	13,585
Due to employees-union group	7,220	-	-	7,220
Total liabilities	<u>\$ 17,378</u>	<u>\$ 18,842,535</u>	<u>\$ 18,837,124</u>	<u>\$ 22,789</u>

**Capital Assets used in the Operation of
Governmental Funds**

City of Fenton
Capital Assets Used in the Operation of Governmental Funds
Schedule By Source¹
June 30, 2006

Governmental funds capital assets	
Land	\$ 1,605,104
Buildings	6,007,171
Improvements - other than buildings	546,530
Vehicles	1,611,208
Office equipment	84,926
Machinery and other equipment	743,806
Infrastructure	2,034,020
Construction in progress	1,458,614
	<hr/>
Total governmental funds capital assets	\$ 14,091,379
	<hr/> <hr/>
Investments in governmental funds capital assets by source	
General fund	\$ 12,119,987
Special revenue funds	1,971,392
	<hr/>
Total governmental funds capital assets	\$ 14,091,379
	<hr/> <hr/>

¹This schedule presents only the capital asset balances related to governmental fund. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

City of Fenton
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity¹
June 30, 2006

	Total	Land	Buildings
General government			
City hall and grounds	\$ 568,677	\$ 16,000	\$ 316,405
Other city property	3,891,893	1,327,307	2,421,638
Total general government	4,460,570	1,343,307	2,738,043
Public safety:			
Police	862,837	112,894	348,315
Fire	4,681,200	15,000	2,774,939
Total public safety	5,544,037	127,894	3,123,254
Public works:			
Streets	3,492,634	-	-
Culture and recreation	594,138	133,903	145,874
Total governmental funds capital assets	<u>\$ 14,091,379</u>	<u>\$ 1,605,104</u>	<u>\$ 6,007,171</u>

¹This schedule presents only the capital asset balances related to governmental fund. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

Improvements other than Buildings	Vehicles	Office Equipment	Infrastructure	Construction in progress	Machinery and Equipment
\$ 176,061	\$ -	\$ 60,211	\$ -	\$ -	\$ -
96,118	-	17,788	-	-	29,042
272,179	-	77,999	-	-	29,042
6,420	-	6,927	-	-	388,281
14,900	1,611,208	-	-	-	265,153
21,320	1,611,208	6,927	-	-	653,434
-	-	-	2,034,020	1,458,614	-
253,031	-	-	-	-	61,330
\$ 546,530	\$ 1,611,208	\$ 84,926	\$ 2,034,020	\$ 1,458,614	\$ 743,806

City of Fenton
Capital Assets Used in the Operation of Governmental Fund
Schedule of Changes By Function and Activity¹
Year Ended June 30, 2006

Function and Activity	Governmental Funds Capital Assets June 30, 2005	Additions	Deletions	Governmental Funds Capital Assets June 30, 2006
General government				
City hall and grounds	\$ 568,677	\$ -	\$ -	\$ 568,677
Other city property	3,891,893	-	-	3,891,893
	<hr/>			<hr/>
Total general government	4,460,570	-	-	4,460,570
	<hr/>			<hr/>
Public safety:				
Police	716,664	146,173	-	862,837
Fire	3,715,026	966,174	-	4,681,200
	<hr/>			<hr/>
Total public safety	4,431,690	1,112,347	-	5,544,037
	<hr/>			<hr/>
Public works:				
Streets	2,051,392	1,532,873	91,631	3,492,634
	<hr/>			<hr/>
Culture and recreation	594,138	-	-	594,138
	<hr/>			<hr/>
Total governmental funds: capital assets	\$ 11,537,790	\$ 2,645,220	\$ 91,631	\$ 14,091,379
	<hr/>			<hr/>

¹This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

**Long Term Debt Schedules
Governmental Funds,
Business Type Funds, and
Component Unit**

City of Fenton
Annual Debt Service Requiremen
on Long-Term Debt
June 30, 2006

Fiscal Year
Ended June 30

2007	\$ 2,536,082
2008	2,529,707
2009	2,535,274
2010	2,477,940
2011	2,417,973
2012	2,427,863
2013	2,424,860
2014	2,420,555
2015	2,425,788
2016	2,331,698
2017	1,740,452
2018	1,721,908
2019	1,712,878
2020	1,119,500
2021	1,099,800
2022	614,625
2023	615,000

\$ 33,151,903

Principal	\$ 25,599,068
Interest	7,552,835

\$ 33,151,903

**City of Fenton
Governmental
Schedule of Debt Service Requirements
Motorola Communications System
June 30, 2006**

<u>Fiscal Year Ended June 30</u>	<u>Interest September 1</u>	<u>Principal September 1</u>	<u>Total Requirements</u>
2007	\$ 7,717	\$ 52,000	\$ 59,717
2008	5,887	53,830	59,717
2009	3,992	55,724	59,716
2010	2,030	57,686	59,716
	<hr/>	<hr/>	<hr/>
	\$ 19,626	\$ 219,240	\$ 238,866
	<hr/>	<hr/>	<hr/>

**City of Fenton
Governmental
Schedule of Debt Service Requirements
Magnum Firetruck
June 30, 2006**

<u>Fiscal Year Ended June 30</u>	<u>Interest September 1</u>	<u>Principal September 1</u>	<u>Total Requirements</u>
2007	\$ 21,049	\$ 54,933	\$ 75,982
2008	19,033	56,949	75,982
2009	16,943	59,039	75,982
2010	14,776	61,206	75,982
2011	12,530	63,452	75,982
2012	10,201	65,781	75,982
2013	7,787	68,195	75,982
2014	5,285	70,697	75,982
2015	2,690	73,292	75,982
	<hr/>	<hr/>	<hr/>
	\$ 110,294	\$ 573,544	\$ 683,838
	<hr/>	<hr/>	<hr/>

City of Fenton
Enterprise Fund - Sewer
Schedule of 1997 Sewage Disposal System No. 3 Bonds
June 30, 2006

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Interest</u> <u>October 1</u>	<u>Interest</u> <u>April 1</u>	<u>Principal</u> <u>April 1</u>	<u>Total</u> <u>Requirements</u>
2007	\$ 139,684	\$ 139,685	\$ 545,342	\$ 824,711
2008	132,186	132,186	637,549	901,921
2009	122,623	122,623	663,894	909,140
2010	111,005	111,004	692,874	914,883
2011	98,880	98,879	706,046	903,805
2012	83,876	83,876	711,315	879,067
2013	68,761	68,760	713,949	851,470
2014	51,804	51,804	708,681	812,289
2015	34,973	34,973	700,776	770,722
2016	17,454	17,453	698,143	733,050
	<u>\$ 861,246</u>	<u>\$ 861,243</u>	<u>\$ 6,778,569</u>	<u>\$ 8,501,058</u>

Contract with Genesee County
Date of issue: September 11, 1996

City of Fenton
Enterprise Fund - Sewer
Schedule of Sewage Disposal System No. 3 Series 1998 Bonds
June 30, 2006

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Interest</u> <u>September 1</u>	<u>Interest</u> <u>March 1</u>	<u>Principal</u> <u>March 1</u>	<u>Total</u> <u>Requirements</u>
2007	\$ 76,186	\$ 76,186	\$ 167,017	\$ 319,389
2008	72,220	72,220	97,641	242,081
2009	69,901	69,901	97,641	237,443
2010	67,582	67,582	97,641	232,805
2011	65,262	65,262	113,058	243,582
2012	62,578	62,578	143,892	269,048
2013	59,160	59,160	177,296	295,616
2014	54,905	54,905	223,546	333,356
2015	49,484	49,484	274,937	373,905
2016	42,782	42,782	308,340	393,904
2017	35,074	35,074	462,510	532,658
2018	23,511	23,510	470,219	517,240
2019	11,754	11,754	470,218	493,726
	<u>\$ 690,399</u>	<u>\$ 690,398</u>	<u>\$ 3,103,956</u>	<u>\$ 4,484,753</u>

Contract with Genesee County
Date of issue: June 8, 1998

City of Fenton
Enterprise Fund - Water
Schedule of Michigan Municipal Bond Authority
Michigan Drinking Water Revolving Fund Bond
June 30, 2006

<u>Fiscal Year</u> <u>Ended June 30</u>	Interest October 1	Interest April 1	Principal April 1	Total Requirements
2007	\$ 12,360	\$ 12,360	\$ 65,000	\$ 89,720
2008	11,547	11,547	65,000	88,094
2009	10,735	10,735	65,000	86,470
2010	9,922	9,922	70,000	89,844
2011	9,047	9,047	70,000	88,094
2012	8,172	8,171	75,000	91,343
2013	7,235	7,234	75,000	89,469
2014	6,297	6,296	75,000	87,593
2015	5,360	5,359	80,000	90,719
2016	4,360	4,359	80,000	88,719
2017	3,360	3,359	85,000	91,719
2018	2,297	2,296	85,000	89,593
2019	1,235	1,234	98,759	101,228
	<u>\$ 91,927</u>	<u>\$ 91,919</u>	<u>\$ 988,759</u>	<u>\$ 1,172,605</u>

Michigan Municipal Bond Authority
Date of issue: April 1, 1999
Interest rate: 2.5%

City of Fenton
Enterprise Fund - Water
Schedule of Michigan Municipal Bond Authority
Michigan Drinking Water Revolving Fund Bond
June 30, 2006

<u>Fiscal Year</u> <u>Ended June 30</u>	Interest October 1	Interest April 1	Principal April 1	Total Requirements
2007	\$ 105,563	\$ 105,562	\$ 405,000	\$ 616,125
2008	100,500	100,500	415,000	616,000
2009	95,312	95,313	425,000	615,625
2010	90,000	90,000	435,000	615,000
2011	84,563	84,562	445,000	614,125
2012	79,000	79,000	460,000	618,000
2013	73,250	73,250	470,000	616,500
2014	67,375	67,375	480,000	614,750
2015	61,375	61,375	495,000	617,750
2016	55,187	55,188	505,000	615,375
2017	48,875	48,875	520,000	617,750
2018	42,375	42,375	530,000	614,750
2019	35,750	35,750	545,000	616,500
2020	28,938	28,937	560,000	617,875
2021	21,937	21,938	570,000	613,875
2022	14,813	14,812	585,000	614,625
2023	7,500	7,500	600,000	615,000
	<u>\$ 1,012,313</u>	<u>\$ 1,012,312</u>	<u>\$ 8,445,000</u>	<u>\$ 10,469,625</u>

Michigan Municipal Bond Authority
Date of issue: December 19, 2002
Interest rate: 2.5%

Component Unit Combining Statements

City of Fenton
Component Unit DDA
Schedule of 1994 Downtown Development Bond
June 30, 2006

<u>Fiscal Year</u> <u>Ended June 30</u>	Interest November 1	Interest May 1	Principal May 1	Total Requirements
2007	\$ 7,259	\$ 7,259	\$ 70,000	\$ 84,518
2008	4,931	4,931	70,000	79,862
2009	2,569	2,569	75,000	80,138
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 14,759	\$ 14,759	\$ 215,000	\$ 244,518
	<hr/>	<hr/>	<hr/>	<hr/>

City of Fenton
Component Unit DDA
Schedule of 2002 General Obligation Limited Tax Development Bond
June 30, 2006

<u>Fiscal Year</u> <u>Ended June 30</u>	Interest October 1	Interest April 1	Principal April 1	Total Requirements
2007	\$ 115,460	\$ 115,460	\$ 235,000	\$ 465,920
2008	110,525	110,525	245,000	466,050
2009	105,380	105,380	260,000	470,760
2010	99,855	99,855	290,000	489,710
2011	93,693	93,692	305,000	492,385
2012	87,211	87,212	320,000	494,423
2013	80,411	80,412	335,000	495,823
2014	73,293	73,292	350,000	496,585
2015	65,855	65,855	365,000	496,710
2016	57,825	57,825	385,000	500,650
2017	49,163	49,162	400,000	498,325
2018	40,163	40,162	420,000	500,325
2019	30,712	30,712	440,000	501,424
2020	20,813	20,812	460,000	501,625
2021	10,463	10,462	465,000	485,925
	<u>\$ 1,040,822</u>	<u>\$ 1,040,818</u>	<u>\$ 5,275,000</u>	<u>\$ 7,356,640</u>

City of Fenton
Governmental Funds Balance Sheet/Statement of Net Assets
Component Unit DDA
June 30, 2006

	Special Revenue Fund	Capital Projects Fund	Totals	Adjustments	Statement of Net Assets
Assets					
Cash and cash equivalents	\$ 1,884,298	\$ 30,388	\$ 1,914,686	\$ -	\$ 1,914,686
Accounts receivable	19,402	-	19,402	-	19,402
Due from other funds	-	30,400	30,400	(30,400)	-
Due from primary government	9	-	9	-	9
Capital assets not depreciated	-	-	-	295,000	295,000
Total assets	\$ 1,903,709	\$ 60,788	\$ 1,964,497	264,600	2,229,097
Liabilities					
Accounts payable	\$ -	\$ 53,047	\$ 53,047	-	53,047
Accrued liabilities	-	854	854	-	854
Due to other funds	30,400	-	30,400	(30,400)	-
Noncurrent liabilities:					
Current portion of debt	-	-	-	305,000	305,000
Long term portion of debt	-	-	-	5,185,000	5,185,000
Total liabilities	30,400	53,901	84,301	5,459,600	5,543,901
Fund Balances/Net Assets					
Fund balances:					
Unreserved:					
Special revenue fund	1,873,309	-	1,873,309	(1,873,309)	-
Capital projects fund	-	6,887	6,887	(6,887)	-
Total fund balances	1,873,309	6,887	1,880,196	(1,880,196)	-
Total liabilities and fund balances	\$ 1,903,709	\$ 60,788	\$ 1,964,497		
Net assets:					
Invested in capital assets				295,000	295,000
Unrestricted				(3,609,804)	(3,609,804)
Total net assets				\$ (3,314,804)	\$ (3,314,804)
Explanation of adjustments:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				\$ 295,000	
Long-term liabilities, including bonds payable, are not due an payable in the current period and therefore are not reported in the funds.				(5,490,000)	
				<u>\$ (5,195,000)</u>	

City of Fenton
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances/Statement of Activities
Component Unit DDA
Year Ended June 30, 2006

	Special Revenue Fund	Capital Projects Fund	Totals	Adjusments	Statement of Activities
Revenues:					
Taxes	\$ 1,129,759	\$ -	\$ 1,129,759	\$ -	\$ 1,129,759
Interest	79,259	34	79,293	-	79,293
Total revenues	1,209,018	34	1,209,052	-	1,209,052
Expenditures/expenses:					
Current:					
General government	-	813,690	813,690	-	813,690
Debt service:					
Principal payments	300,000	-	300,000	(300,000)	-
Interest and fiscal charges	260,240	-	260,240	-	260,240
Total expenditures/ expenses	560,240	813,690	1,373,930	(300,000)	1,073,930
Revenues under (over) expenditures/expenses	648,778	(813,656)	(164,878)	300,000	135,122
Other financing sources (uses):					
Transfers in	-	763,911	763,911	(763,911)	-
Transfers out	(763,911)	-	(763,911)	763,911	-
Total other financing sources (uses)	(763,911)	763,911	-	-	-
Revenues and other financing sources under (over) expenditures and other financing uses	(115,133)	(49,745)	(164,878)	164,878	-
Change in net assets	-	-	-	135,122	135,122
Fund balances/net assets - beginning of year	1,988,442	56,632	2,045,074	-	(3,449,926)
Fund balances/net assets - end of year	\$ 1,873,309	\$ 6,887	\$ 1,880,196		\$ (3,314,804)

Explanation of adjustments:

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. These are the effects of these differences in the treatment of long-term debt and related items.

\$ 300,000

City of Fenton
Governmental Funds Balance Sheet/Statement of Net Assets
Component Unit LDFA
June 30, 2006

	Special Revenue Fund	Capital Projects Fund	Totals	Adjustments	Statement of Net Assets
Assets					
Cash and cash equivalents	\$ 542,392	\$ 23,769	\$ 566,161	\$ -	\$ 566,161
Accounts receivable	1,080	-	1,080	-	1,080
Accrued interest	3,048	-	3,048	-	3,048
Due from primary government	-	5,240	5,240	-	5,240
Total assets	\$ 546,520	\$ 29,009	\$ 575,529	-	575,529
Liabilities					
Accounts payable	\$ -	\$ 1,839	\$ 1,839	-	1,839
Accrued liabilities	-	285	285	-	285
Total liabilities	-	2,124	2,124	-	2,124
Fund Balances/Net Assets					
Fund balances:					
Unreserved:					
Special revenue fund	546,520	-	546,520	(546,520)	-
Capital projects fund	-	26,885	26,885	(26,885)	-
Total fund balances	546,520	26,885	573,405	(573,405)	-
Total liabilities and fund balances	\$ 546,520	\$ 29,009	\$ 575,529		
Net assets:					
Unrestricted				573,405	573,405
Total net assets				\$ 573,405	\$ 573,405

City of Fenton
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances/Statement of Activities
Component Unit LDFA
Year Ended June 30, 2006

	Special Revenue Fund	Capital Fund - Sewer	Totals	Adjustments	Statement of Activities
Revenues:					
Taxes	\$ 232,302	\$ -	\$ 232,302	\$ -	\$ 232,302
Interest	16,686	156	16,842	-	16,842
Total revenues	248,988	156	249,144	-	249,144
Expenditures/expenses:					
Current:					
General government	-	25,443	25,443	-	25,443
Capital outlay	-	207,280	207,280	-	207,280
Total expenditures/ expenses	-	232,723	232,723	-	232,723
Revenues under (over) expenditures/expenses	248,988	(232,567)	16,421	-	16,421
Other financing sources (uses):					
Transfers in	-	249,783	249,783	(249,783)	-
Transfers out	(249,783)	-	(249,783)	249,783	-
Total other financing sources (uses)	(249,783)	249,783	-	-	-
Revenues and other financing sources under (over) expenditures and other financing uses	(795)	17,216	16,421	(16,421)	-
Change in net assets	-	-	-	16,421	16,421
Fund balances - beginning of year	547,315	9,669	556,984	-	556,984
Fund balances - end of year	\$ 546,520	\$ 26,885	\$ 573,405	\$ -	\$ 573,405

Statistical Section

City of Fenton
Net Assets by Component (Unaudited)

	2004	2005	2006
Governmental Activities:			
Invested in capital assets, net of related debt	8,988,512	9,544,656	11,081,127
Restricted	201,560	528,750	161,725
Unrestricted	2,776,459	2,547,711	2,764,533
Total net assets	11,966,531	12,621,117	14,007,385
Business Type Activities:			
Invested in capital assets, net of related debt	17,324,297	18,676,883	19,387,156
Restricted	879,539	891,239	919,808
Unrestricted	5,130,347	3,505,141	2,943,468
Total net assets	23,334,183	23,073,263	23,250,432
Primary government in total:			
Invested in capital assets, net of related debt	26,312,809	28,221,539	30,468,283
Restricted	1,081,099	1,419,989	1,081,533
Unrestricted	7,906,806	6,052,852	5,708,001
Total net assets	35,300,714	35,694,380	37,257,817

City of Fenton
Changes in Governmental Net Assets (Unaudited)

	2004	2005	2006
Expenses			
Legislative and executive	\$168,023	\$180,253	\$197,051
General government	1,187,463	1,309,602	1,223,414
Public safety	2,751,891	2,966,655	3,128,752
Public works	1,545,260	1,753,694	2,345,278
Parks and recreation	149,241	154,860	170,906
Community Service	135,106	142,844	139,098
Cemetery	51,607	47,949	72,109
Interest on long-term debt	354,504	3,305	34,296
Total governmental activities	6,343,095	6,559,162	7,310,904
Program revenues:			
Charges for services			
General government	10,438	99,340	89,408
Public safety	584,786	505,469	601,299
Public works	457,505	419,347	441,473
Parks and recreation	23,448	26,737	24,859
Cemetery	32,057	15,545	31,887
Total charges for services	1,108,234	1,066,438	1,188,926
Operating grants and contributions	208,061	892,297	893,444
Capital grants and contributions	940,343	307,150	1,303,418
Total program revenue	2,256,638	2,265,885	3,385,788
Net (expense) revenue	(4,086,457)	(4,293,277)	(3,925,116)
General revenues:			
Property taxes	3,471,199	3,945,739	4,230,989
State-shared revenues	911,537	898,721	891,252
Investment earnings	63,613	92,820	158,579
Gain on sale of capital assets	11,616	10,583	30,564
Total general revenues	4,457,965	4,947,863	5,311,384
Change in net assets	\$ 371,508	\$ 654,586	\$ 1,386,268

City of Fenton**Changes in Business Type Net assets (Unaudited)**

	2004	2005	2006
Operating Revenue			
Sale of water	\$ 1,410,117	\$ 1,716,315	\$ 2,054,055
Sewage disposal charges	1,794,138	1,668,823	1,640,425
Other charges for services	33,257	32,679	79,600
Total operating revenue	3,237,512	3,417,817	3,774,080
Operating Expenses			
Cost of water produced/purchased	207,699	689,608	776,897
Cost of sewage treatment	882,707	884,521	862,022
Other operation and maintenance costs	800,178	674,538	762,450
Billing and administrative costs	448,299	450,653	448,066
Depreciation	486,631	680,141	734,742
Total operating expenses	2,825,514	3,379,461	3,584,177
Operating Income (Loss)	411,998	38,356	189,903
Nonoperating Revenue (Expenses)			
Property taxes			
Investment income	122,291	113,604	128,526
Interest expense	(868,329)	(787,304)	(760,348)
Gain (loss) on disposal of assets		(63,706)	-
Income (Loss) - Before contributions and other items	(334,040)	(699,050)	(441,919)
Capital Contributions	567,750	438,130	619,088
Change in Net Assets	\$ 233,710	\$ (260,920)	\$ 177,169

City of Fenton

Fund Balances, Governmental Funds (Unaudited)

	As of June 30,									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund:										
Reserved	\$ 68,305	\$ 210,485	\$ 36,355	\$ 35,070	\$ 33,021	\$ 34,487	\$ -	\$ -	\$ 360,433	\$ 97,770
Unreserved	1,632,528	1,580,171	1,867,124	1,098,160	986,362	1,100,651	1,137,215	1,192,859	1,184,321	1,260,154
Total general fund	1,700,833	1,790,656	1,903,479	1,133,230	1,019,383	1,135,138	1,137,215	1,192,859	1,544,754	1,357,924
All other governmental funds:										
Reserved	-	-	-	-	-	-	-	-	-	5,875
Unreserved, reported in:										
Special revenue funds	1,105,577	697,823	721,301	934,074	835,036	924,129	709,924	693,125	575,654	567,913
Capital project funds	676,763	913,386	360,812	547,543	282,243	345,291	381,480	607,729	1,274,366	536,764
Debt service funds	251,984	248,260	260,389	185,453	137,313	86,847	1,231	1,231	1,231	-
Total all other governmental funds	\$ 2,034,324	\$ 1,859,469	\$ 1,342,502	\$ 1,667,070	\$ 1,254,592	\$ 1,356,267	\$ 1,092,635	\$ 1,302,085	\$ 1,851,251	\$ 1,110,552

City of Fenton

Changes in Fund Balances, Governmental Funds (Unaudited)

	Year Ended June 30,									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenue										
Property taxes	\$2,304,901	\$2,372,044	\$2,548,531	\$2,537,026	\$2,680,851	\$2,992,277	\$3,331,320	\$3,471,199	\$3,945,739	\$4,230,989
Special assessments	36,458	22,026	18,567	23,935	51,813	37,404	31,234	21,592	16,940	9,630
Licenses and permits	193,355	121,678	151,112	175,728	201,462	189,527	207,890	199,950	188,548	219,417
Intergovernmental	1,481,959	1,496,512	2,109,264	1,846,859	1,890,045	1,798,813	1,745,502	1,643,819	1,636,084	1,641,769
Charges for services	596,982	707,626	738,598	781,073	757,617	807,434	853,325	890,454	850,713	929,924
Fines and forfeitures	47,955	48,262	48,378	29,844	32,016	48,652	52,113	87,889	75,657	100,282
Interest	163,494	194,246	172,323	209,964	149,806	60,945	41,026	57,980	72,177	136,634
Other	70,782	310,648	86,381	139,149	163,663	101,277	137,620	120,172	90,817	54,986
Total revenue	\$4,895,886	\$5,273,042	\$5,873,154	\$5,743,578	\$5,927,273	\$6,036,329	\$6,400,030	\$6,493,055	\$6,876,675	\$7,323,631
Expenditures										
Current:										
Legislative and executive	85,843	107,923	119,817	136,428	94,977	101,242	165,196	168,023	180,249	197,051
General government	915,532	971,681	1,370,550	2,031,287	1,446,025	1,602,382	1,114,972	1,110,618	1,187,861	1,283,627
Public safety	1,302,153	1,648,956	1,667,005	1,921,844	2,183,186	1,895,435	2,594,115	2,686,839	2,871,127	3,223,832
Public works	1,237,978	1,499,286	2,242,031	1,613,052	2,246,069	1,619,268	2,163,482	1,771,524	2,109,046	2,058,361
Recreation and cultural	281,583	154,928	189,967	196,792	299,346	326,765	266,667	196,359	225,450	283,553
Other	157,784	115,230	183,952	243,025	180,881	183,306	177,293	186,713	190,793	176,138
Capital outlay	14,052	23,421	375,700	92,004	205,756	-	31,570	49,995	62,203	836,131
Debt service	289,737	224,258	204,276	201,240	168,035	94,247	93,014	40,258	40,259	176,067
Total Expenditures	4,284,662	4,745,683	6,353,298	6,435,672	6,824,275	5,822,645	6,606,309	6,210,329	6,866,988	8,234,760
Excess of Revenue Over (Under) Expenditures	611,224	527,359	(480,144)	(692,094)	(897,002)	213,684	(206,279)	282,726	9,687	(911,129)
Other Financing Sources (Uses)										
Debt issuance									900,000	
Debt premium or discount										
Sale of fixed assets					296,155	7,800			8,600	
Transfers in	938,204	944,260	1,549,319	1,290,713	1,613,301	1,218,589	1,484,847	604,492	1,432,490	1,514,587
Transfers out	(854,682)	(878,350)	(1,473,322)	(1,141,917)	(1,548,565)	(1,228,600)	(1,545,622)	(622,120)	(1,449,716)	(1,530,987)
Debt defeasance										
Total other financing sources (uses)	83,522	65,910	75,997	148,796	360,891	(2,211)	(60,775)	(17,628)	891,374	(16,400)
Special item								118,855		
Extraordinary item										
Net change in fund balances	694,746	593,269	(404,147)	(543,298)	(536,111)	211,473	(267,054)	265,098	901,061	(927,529)
Fund Balances - Beginning of year	2,362,113	3,056,859	3,650,128	3,245,981	2,702,683	2,166,572	2,378,045	2,110,991	2,494,944	3,396,005
Fund Balances - End of year	3,056,859	3,650,128	3,245,981	2,702,683	2,166,572	2,378,045	2,110,991	2,494,944	3,396,005	2,468,476

Debt service as a percentage of noncapital expenditures

City of Fenton

Taxable Value and Actual Value of Taxable Property (Unaudited)

Tax Year	Fiscal year ended June 30,	Taxable Value by Property Type:					Tax rate (mills)	Estimated Actual Value	Taxable Value as a % of Actual
		Real property:			Personal property	Total Value			
		Residential	Commercial	Industrial					
1996	1997	\$ 120,193,311	\$ 53,131,490	\$ 11,621,720	\$ 21,679,950	\$ 206,626,471	11.00	\$ 427,417,942	48.34%
1997	1998	126,736,715	59,335,781	13,709,610	23,305,150	223,087,256	11.00	470,611,650	47.40%
1998	1999	132,407,780	68,650,080	15,464,090	31,082,400	247,604,350	11.00	537,070,400	46.10%
1999	2000	138,013,250	73,866,830	17,035,180	32,988,500	261,903,760	11.00	577,010,200	45.39%
2000	2001	153,037,980	80,699,570	19,002,480	36,076,700	288,816,730	11.00	634,013,600	45.55%
2001	2002	168,563,750	90,569,930	21,192,720	35,929,500	316,255,900	11.00	818,934,400	38.62%
2002	2003	188,410,420	106,294,960	21,768,100	37,544,000	354,017,480	10.98	883,023,000	40.09%
2003	2004	193,886,780	116,078,570	22,700,560	37,467,400	370,133,310	10.87	964,670,600	38.37%
2004	2005	206,660,120	122,048,650	23,708,540	40,682,700	393,100,010	10.87	991,013,200	39.67%
2005	2006	222,144,150	131,396,894	26,662,760	40,613,400	420,817,204	10.71	1,111,149,236	37.87%

Note: Under Michigan law, the revenue base is referred to as "Taxable Value". This amount represents Assessed value (50% of true cash value), limited for each property by the lower of 5% or inflation.

Taxes levied in a particular "tax year" become revenue of the subsequent fiscal year

City of Fenton

Direct and Overlapping Property Tax Rates (Unaudited)

Millage rates - direct city taxes				Overlapping taxes							Total tax rate:	
Tax Year	General operating	Debt	Total direct taxes	County	Community college	Intermediate school district	Regional parks	School Debt	School: Homestead	School: Non-homestead	Homestead	Non-homestead
1996	11.00	0.57	11.57	8.15	1.87	3.60	0.00	3.30	6.00	18.00	46.06	64.06
1997	11.00	0.35	11.35	8.25	1.87	3.60	0.00	3.30	6.00	17.98	45.72	63.70
1998	11.00	0.32	11.32	8.25	1.87	3.60	0.00	6.65	6.00	17.98	49.01	66.99
1999	11.00	0.00	11.00	8.24	1.87	3.60	0.00	7.65	6.00	18.00	49.36	67.36
2000	11.00	0.00	11.00	8.21	1.87	3.60	0.00	7.63	6.00	17.79	49.31	67.10
2001	11.00	0.00	11.00	8.21	2.87	3.58	0.40	7.64	6.00	17.79	50.70	68.49
2002	10.98	0.00	10.98	8.15	2.82	3.57	0.40	7.61	6.00	17.79	50.51	68.30
2003	10.87	0.00	10.87	8.15	2.72	3.52	0.40	7.59	5.00	17.54	49.12	66.66
2004	10.87	0.00	10.87	8.15	2.68	3.54	0.39	7.60	6.00	18.00	50.10	68.10
2005	10.71	0.00	10.71	8.51	2.68	3.54	0.37	5.64	6.00	17.63	48.16	65.79

City of Fenton
Principal Property Tax Payers (Unaudited)

Taxpayer		2005 Taxable Value	Percentage of total	1996 Taxable Value	Percentage of total	1996 rank
1	Georgetown	\$ 8,247,640	1.96%	\$ 4,353,410	2.28%	2
2	Consumer's Energy	7,770,210	1.85%	3,884,080	2.03	3
3	Creative Foam	6,688,660	1.59%	3,653,640	1.91	4
4	Century Tool	6,580,500	1.56%	3,467,510	1.68	N/A
5	Silver Lake Hills	6,095,600	1.45%	vacant land	N/A	N/A
6	Regency	5,160,400	1.23%	vacant land	N/A	N/A
7	Home Depot	4,842,660	1.15%	vacant land	N/A	N/A
8	Owen Investment	4,758,140	1.13%	vacant land	N/A	N/A
9	K-mart Corporation	4,415,320	1.05%	5,381,460	2.82	1
10	Ring Screw Works	4,214,380	1.00%	3,362,340	1.76	5

City of Fenton

Property Tax Levies and Collections (Unaudited)

Tax Year	Fiscal year ended June 30,	Total levy	Current collections	Percent collected	Delinquent collections	Total tax collections	Percent of levy collected
1996	1997	\$ 2,390,960	\$ 2,274,471	95.1%	\$ 113,792	\$ 2,388,263	99.9%
1997	1998	2,533,005	2,409,675	95.1%	114,731	2,524,406	99.7%
1998	1999	2,804,107	2,655,840	94.7%	139,519	2,795,359	99.7%
1999	2000	2,895,094	2,740,034	94.6%	139,102	2,879,136	99.4%
2000	2001	3,197,129	3,039,444	95.1%	154,587	3,194,031	99.9%
2001	2002	3,467,617	3,252,501	93.8%	199,781	3,452,282	99.6%
2002	2003	3,886,769	3,651,783	94.0%	211,537	3,863,320	99.4%
2003	2004	4,023,151	3,827,520	95.1%	186,176	4,013,696	99.8%
2004	2005	4,272,500	4,104,165	96.1%	158,720	4,262,885	99.8%
2005	2006	4,498,613	4,292,059	95.4%	188,777	4,480,836	99.6%

City of Fenton
Ratios of Outstanding Debt (Unaudited)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Governmental Activities:										
General obligation bonds	95,000	500,000	20,000	10,000						
Installment purchase agreements							110,930	75,525	938,571	792,784
Special assessment bonds	40,000	30,000	40,000	20,000						
Revenue bonds										
Capital leases									84,350	64,707
Total	135,000	530,000	60,000	30,000	-	-	110,930	75,525	1,022,921	
Business Type Activities:										
General obligation bonds	9,841,178	9,726,894	13,266,014	12,899,892	12,572,077	12,122,855	11,639,255	11,162,245	11,558,781	9,882,525
Installment purchase agreements						96,308	49,725			
Special assessment bonds										
Revenue bonds			1,480,000	1,420,000	1,360,000	1,300,000	10,840,000	10,400,000	9,888,759	9,433,759
Capital leases										
Total	9,841,178	9,726,894	14,746,014	14,319,892	13,932,077	13,519,163	22,528,980	21,562,245	21,447,540	19,316,284
Component Unit Activities:										
General obligation bonds	2,060,000	1,975,000	1,875,000	1,760,000	1,640,000	7,710,000	7,345,000	6,960,000	5,790,000	5,490,000
Total	2,060,000	1,975,000	1,875,000	1,760,000	1,640,000	7,710,000	7,345,000	6,960,000	5,790,000	5,490,000
Total debt of the government	12,036,178	12,231,894	16,681,014	16,109,892	15,572,077	21,229,163	29,984,910	28,597,770	28,260,461	24,806,284
Total Taxable Value	206,626,471	223,087,256	247,604,350	261,903,760	288,816,730	316,255,900	354,017,480	370,133,310	393,100,010	420,817,204
Ratio of total debt to taxable value	5.83%	5.48%	6.74%	6.15%	5.39%	6.71%	8.47%	7.73%	7.19%	5.89%
Total Population	9,363	9,705	9,705	10,582	10,582	10,582	10,582	10,582	10,582	10,582
Total debt per capita	1,286	1,260	1,719	1,522	1,472	2,006	2,834	2,702	2,671	2,344

City of Fenton

Ratios of General Bonded Debt Outstanding (Unaudited)

Fiscal Year	Tax-limited General obligation bonds (LTGO)	Tax supported bonds (UTGO)	Less pledged debt service funds	Other general obligation debt	Net general bonded debt	Taxable value	Debt as a percentage of taxable value	Population	Debt per capita
1997	\$ 120,000	\$ 15,000	\$ (43,777)	\$ -	\$ 91,223	\$ 206,626,471	0.0004	9,363	10
1998	80,000	-	(14,317)	-	65,683	223,087,256	0.0003	9,705	7
1999	60,000	-	(8,725)	-	51,275	247,604,350	0.0002	9,705	5
2000	30,000	-	(7,172)	-	22,828	261,903,760	0.0001	10,582	2
2001	-	-	-	-	-	288,816,730	-	10,582	-
2002	-	-	-	-	-	316,255,900	-	10,582	-
2003	-	-	-	110,930	110,930	354,017,480	0.0003	10,582	10
2004	-	-	-	75,525	75,525	370,133,310	0.0002	10,582	7
2005	-	-	-	1,022,921	1,022,921	393,100,010	0.0026	10,582	97
2006	-	-	-	857,491	857,491	420,817,204	0.0020	10,582	81

City of Fenton**Direct and Overlapping Governmental Activities Debt (Unaudited)**

Governmental unit	Debt outstanding	Estimated % applicable	Estimated share of overlapping debt
Genesee County	\$ 36,510,621	3.74%	\$ 1,365,497
Mott Community College	69,105,933	3.74%	2,584,562
Fenton School District			
Lake Fenton School District	46,265,739	5.35%	2,475,217
Genesee ISD	-	0.00%	
Total overlapping debt	151,882,293		6,425,276
Direct City debt	25,834,772	100.00%	25,834,772
Total direct and overlapping debt	<u>\$ 177,717,065</u>		<u>\$ 32,260,048</u>

City of Fenton

Legal debt margin (Unaudited)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Calculation of debt limit:										
State equalized valuation	213,708,971	235,305,825	268,535,200	288,505,100	317,006,800	409,467,200	441,511,500	482,335,300	495,506,600	555,574,618
10% of taxable value	21,370,897	23,530,582	26,853,520	28,850,510	31,700,680	40,946,720	44,151,150	48,233,530	49,550,660	55,557,461
Calculation of debt subject to limit:										
Total debt	12,036,178	11,781,894	16,681,014	16,109,892	15,572,077	21,229,163	29,984,910	28,597,770	28,260,461	25,834,772
Less: debt not subject to limit:										
Special assessment bonds	40,000	30,000	20,000	10,000	-	-				
Revenue bonds			1,480,000	1,420,000	1,360,000	1,300,000	10,840,000	10,400,000	9,888,759	9,433,759
Pollution abatement bonds										
Water Resources Commission or										
Court ordered bonds										
net debt subject to limit	11,996,178	11,751,894	15,201,014	14,689,892	14,212,077	19,929,163	19,144,910	18,197,770	18,371,702	16,401,013
Legal debt margin	21,370,897	23,530,582	26,853,520	28,850,510	31,700,680	40,946,720	44,151,150	48,233,530	49,550,660	55,557,461
Net debt subject to limit as % of debt limit	56.13%	49.94%	56.61%	50.92%	44.83%	48.67%	43.36%	37.73%	37.08%	29.52%

City of Fenton

Pledged-revenue Coverage (Unaudited)

Fiscal year	Gross revenues	Applicable expenses	Net revenues	Water Revenue Bonds		
				Debt service		Coverage
				Principal	Interest	
1997	\$ 1,098,593	\$ 560,491	\$ 538,102	\$ -	\$ -	
1998	1,212,583	630,485	582,098	-	-	
1999	1,314,030	685,701	628,329	-	-	
2000	1,360,689	651,870	708,819	60,000	18,500	9.03
2001	1,542,245	625,834	916,411	60,000	35,500	9.60
2002	1,342,406	746,622	595,784	60,000	32,460	6.44
2003	1,474,949	826,590	648,359	60,000	30,960	7.13
2004	1,670,229	841,022	829,207	440,000	240,722	1.22
2005	1,930,044	1,364,740	565,304	450,000	193,573	0.88
2006	2,308,560	1,572,492	736,068	460,000	247,210	1.04

Fiscal year	Gross revenues	Applicable expenses	Net revenues	Sewer Revenue Bonds		
				Debt service		Coverage
				Principal	Interest	
1997	\$ 1,919,158	\$ 583,538	\$ 1,335,620	\$ 60,999	\$ 286,989	3.84
1998	1,814,327	671,523	1,142,804	68,461	545,459	1.86
1999	1,933,544	762,417	1,171,127	74,307	540,885	1.90
2000	2,092,621	920,328	1,172,293	267,490	714,149	1.19
2001	2,561,567	975,512	1,586,055	274,342	696,641	1.63
2002	2,299,988	1,160,376	1,079,760	398,624	678,570	1.00
2003	2,320,740	1,286,189	1,034,551	433,003	652,464	0.95
2004	2,257,324	1,309,113	948,211	477,009	623,823	0.86
2005	2,039,507	1,334,580	704,927	598,196	592,874	0.59
2006	2,213,134	1,276,943	936,191	636,739	553,320	0.79

City of Fenton
Demographic and Economic Statistics (Unaudited)

Fiscal year	Population	Personal* income (in thousands)	Per Capita* Personal Income	Unemploy- ment rate
1997	9,363	N/A	N/A	3.2
1998	9,705	\$ 10,339,077	\$ 23,879	3.8
1999	9,705	10,809,636	24,955	3.3
2000	10,582	11,117,952	25,593	2.8
2001	10,582	11,550,238	26,430	5.1
2002	10,582	11,428,292	26,042	5.2
2003	10,582	11,768,618	26,707	5.4
2004	10,582	12,509,332	28,277	4.7
2005	10,582	12,475,412	28,130	4.9
2006	10,582	N/A	N/A	7.7

*Personal Income figures are for the County of Genesee

City of Fenton

Principal Employment Industries (Unaudited)

Industry	2006 Number of Jobs(1)	Percentage of total	1997 Number of Jobs(1)	Percentage of total
Trade, Transportation, and Utilities	31,400	20.22%	34,300	18.95%
Education and Health Services	24,700	15.90%	22,200	12.27%
Government	23,700	15.26%	23,900	13.20%
Manufacturing	20,800	13.39%	44,700	24.70%
Leisure and Hospitality	16,200	10.43%	17,100	9.45%
Professional and Business Services	15,400	9.92%	16,800	9.28%
Natural Resources, Mining, and Construction	7,100	4.57%	7,400	4.09%
Other Services	7,100	4.57%	6,300	3.48%
Financial Activities	6,500	4.19%	6,300	3.48%
Information	2,400	1.55%	2,000	1.10%
Total	155,300	1.00	181,000	1.00

City of Fenton

Full-time Equivalent Government Employees (Unaudited)

Function/ program	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government consider listing by department...										
General government	12	12	13	11	12	13	13	13	14	14
Public safety:										
Police	18	19	20	20	20	20	20	19	21	21
Building inspection	2	2	2	2	2	3	2	2	2	2
Fire	-	1	1	1	1	1	1	1	1	1
Public works:										
DPW	6	6	6	8	8	8	8	8	8	8
Water and sewer	5	5	5	5	5	5	5	9	10	10
Total	43	45	47	47	48	50	49	52	56	56

City of Fenton
Operating Indicators (Unaudited)

Function/ program	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Election data:										
Registered voters	7,591	8,343	7,660	7,985	8,163	8,111	8,397	8,793	8,887	8,768
Voters (at the polls or absentee)	1,434	3,426	911	4,752	794	3,360	531	5,604	939	4,207
Percent voting	18.89%	41.06%	11.89%	59.51%	9.73%	41.43%	6.32%	63.73%	10.57%	47.98%
Police:										
Physical arrests	683	662	626	505	548	477	570	616	866	985
Traffic violations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2,207	2,046
Investigations	7,463	7,680	7,164	7,628	8,042	8,072	8,608	8,459	8,690	8,623
Fire										
Fire runs	N/A	N/A	N/A	N/A	627	362	346	357	333	360
Emergency medical runs	N/A	N/A	N/A	N/A	710	233	226	213	128	133
Inspections	N/A	N/A	N/A	N/A	25	25	25	25	30	25
Public works										
Miles of street resurfaced	1.00	1.38	2.89	2.50	6.25	3.20	2.35	2.50	1.75	
Library:										
Circulation (books borrowed)	76,031	76,772	85,068	81,946	95,119	104,718	108,742	165,756	193,494	222,262
Collection volume	32,759	33,212	33,674	33,894	33,847	34,029	34,786	35,582	43,722	51,963
Water										
Number of customers billed	N/A	N/A	N/A	3,273	3,406	3,498	3,500	3,531	3,655	3,700
Total consumption*	N/A	N/A	N/A	392,575	387,257	422,802	431,825	419,271	402,686	356,301
Average consumption per user	N/A	N/A	N/A	119	114	121	123	119	110	96
Sewer:										
Average daily sewage treatment	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

*Water consumption in thousand
gallons

City of Fenton
Capital Asset Statistics (Unaudited)

[illegible]

City of Fenton
Pension Fund Contributions*
Last Ten Fiscal Years (Unaudited)

Fiscal Year Ended/Ending		
1998	\$122,432	
1999	140,976	
2000	206,090	
2001	219,995	
2002	192,034	
2003	160,842	
2004	215,110	
2005	279,492	
2006	318,418	
2007	279,492	**

* Detailed description of Pension Plan in notes to financial statements and transmittal letter.

** Estimated liability from actuarial

City of Fenton
State-shared Revenues
Last Ten Fiscal Years (Unaudited)

Fiscal Year Ended/Ending		Revenue Sharing Payments
1998		\$ 848,354
1999		856,402
2000		926,879
2001		1,066,750
2002		1,052,220
2003		998,727
2004		901,889
2005		888,771
2006		880,762
2007	estimated	884,140

City of Fenton

Current Tax Rate (Per 1,000 of Valuation) (Unaudited)

	<u>2006-2007</u>
City of Fenton	
Operating	10.6226

City of Fenton
2006 Property Valuations (Unaudited)

2005 State Equalized Valuation	\$ 579,086,464
2006 Taxable Value	442,552,747
Plus:IFT Values	<u>2,906,960</u>
Total Equivalent Value	445,459,707
Less: 2006 DDA Captured Value	66,780,460
2006 LDFA Captured Value	<u>21,530,760</u>
Total 2006 Valuation	<u><u>\$ 357,148,487</u></u>

2006 Estimated population 12,000

Per Capita Valuation

2005 Per Capita Taxable Value	36,879
2005 Per Capita State Equalized Valuation	48,257
2005 Per Capita Estimated True Cash Value	96,514

Breakdown of the City's 2006 Taxable Value by class and use:

<u>By Class</u>	<u>Taxable Value</u>	<u>Percent of Total</u>
Real Property	\$ 404,525,802	91.41%
Personal Property	<u>38,026,945</u>	8.59%
Total	<u><u>\$ 442,552,747</u></u>	<u><u>100.00%</u></u>
<u>By Use</u>		
Commerical	\$ 136,690,241	30.89%
Industrial	28,201,940	6.37%
Residential	239,633,621	54.15%
Personal	<u>38,026,945</u>	8.59%
Total	<u><u>\$ 442,552,747</u></u>	<u><u>100.00%</u></u>



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October 28, 2006

City Council
City of Fenton
301 S. Leroy Street
Fenton, MI 48430

Dear Council Members:

We recently completed our audit of the City of Fenton's (the "City") financial statements for the year ended June 30, 2006. As a result of our audit, we have the following information to communicate to you for your review and consideration.

Automated Clearinghouse Transfers Policy

The City currently makes various ACH wire transfers for payroll and other items. However, it would appear that the Council has not yet adopted the resolution authorizing use of the transfers in accordance with State Law. We recommend that a policy be adopted.

Retiree Health Care Benefits

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government wide financial statements, rather than the individual fund level. Since the City has begun to fund benefits, the manner in which retiree health care benefits are budgeted may be required to change.

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government wide statement of net assets. This valuation will need to be performed by an actuary only if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. Plans with fewer than 100 participants may either hire an actuary, or perform the calculation themselves (at least every three years).

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This statement is effective for the fiscal year beginning July 1, 2009. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates. The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the “interperiod equity” issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year’s contribution. So - funding the contribution will actually reduce your long run cost.

New Auditing Standards

We want to mention to the Board the following new auditing standards that will affect auditors’ responsibilities in the performance of a financial statement audit.

Statement on Auditing Standards 112

On May 25, 2006, the American Institute of Certified Public Accountants (AICPA) Audit Standards Board issued Statement on Auditing Standards (SAS) 112 Communicating Internal Control Related Matters Identified in an Audit, which supersedes SAS 60, Communication of Internal Control Related Matters Noted in an Audit. The effective date is for audits of financial statements for periods ending on or after December 15, 2006.

The SAS establishes standards and provides guidance to enhance the auditor’s communication responsibility to the audit committee or its equivalent concerning significant deficiencies and material weaknesses in internal control noted in a financial statement audit. The SAS defines internal control deficiency, significant deficiency (this term replaces and therefore eliminates the term reportable condition), and material weakness. Internal control deficiencies that constitute significant deficiencies and material weaknesses will be reported to the audit committee or its equivalent in writing and will be made no later than 60 days following the release date of the auditor’s report on the financial statements.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

State-shared Revenue

As you are aware, the ongoing budgetary challenges faced by the State of Michigan continue to negatively impact the City through its revenue-sharing payments. State-shared revenue accounted for approximately 15 percent of the City's General Fund revenue for the year ended June 30, 2006. These percentages have declined over the past several years, due to the State's economic troubles. The following chart depicts the City's actual and estimated revenue-sharing payments over a five year period - from the State's fiscal year ended September 30, 2002 through the estimated amounts for fiscal year ending September 30, 2007:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Constitutional	\$ 693,684	\$ 705,427	\$ 697,766	\$ 714,417	\$ 726,580	\$ 746,683
Statutory	<u>349,997</u>	<u>295,541</u>	<u>201,857</u>	<u>175,400</u>	<u>153,336</u>	<u>133,233</u>
Total	<u>\$ 1,043,681</u>	<u>\$ 1,000,968</u>	<u>\$ 899,623</u>	<u>\$ 889,817</u>	<u>\$ 879,916</u>	<u>\$ 879,916</u>
Increase (decrease)		(42,713)	(101,345)	(9,806)	(9,901)	-
% change		-4.1%	-10.1%	-1.1%	-1.1%	0.0%

While the significant declines in this funding source experienced in recent years appear to have slowed, it is clear that the total amount of money distributed is unlikely to increase without significant changes to the State's revenue structure. This has clearly impacted the City's ability to finance operations and capital spending. As of now, there appears to be no long-term solution to the State's structural deficit in its General Fund, and as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

It is important to recognize that the authority for the statutory portion of revenue sharing terminates on September 30, 2007. This portion represents approximately 17 percent of the City's total state-shared revenue recorded in its General Fund. We have not heard any significant discussion in Lansing regarding the plans for renewal at this time, but it would be appropriate to begin discussions with your state representative regarding the importance of the revenue-sharing program. The long-run health of the state-shared revenue may well be dependent on the State's current project to reform its business tax structure. We continue to urge the City to be conservative in its estimation of state-shared revenues as this line item in the State's budget remains vulnerable. We will continue to update the City as developments occur.

Update on Business Tax Reform and its Impact on Local Government

On August 9, 2006, the Michigan Legislature approved a voters' legislative "initiative" to repeal the Michigan Single Business Tax ("SBT") for tax years beginning after December 31, 2007, two years earlier than it was originally slated to end. In addition to the repeal, the law requires the Michigan Department of Treasury to prorate the SBT to result in the equivalent of zero tax on business activity occurring after December 31, 2007. Previously, the SBT was scheduled to be repealed for tax years beginning after December 31, 2009.

Currently, there is no plan for replacement of this \$1.9 billion in lost revenue to the State. If no replacement revenue is identified, statutory revenue sharing may become a target to fill the hole in the State's budget. The Legislature has created a "Joint Committee on Economic Growth" charged with submitting to the Legislature by December 1 recommendations on a replacement tax for the Single Business Tax. Also, ending and replacing the State's personal property tax, a significant revenue source to many local governments, has been added to the Committee's agenda. These matters will receive considerable attention going forward and in 2007.

Cable Franchise Fees

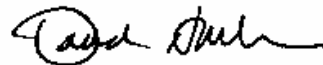
The State of Michigan has joined a number of other states considering statewide cable television franchising. There is a bill (HB 6456) that would create a state video service authorization system that would replace the current system of local franchising of cable television providers, and also would apply to new providers who would provide service through phone lines. Details are still being worked out in regard to "public access" and local origination channels, franchise fees due to local governments, service boundaries and other key provisions. Responding to pressure from local government, the Legislature has decided to wait until after the November elections to continue discussions regarding this bill.

We would like to thank all of the City's personnel for their assistance during the audit. We understand that the initial year with a new audit firm is additional work for all involved, and we appreciate the patience extended to us.

If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Tadd Harburn".

Tadd Harburn, CPA